The Economist

JULY 29TH–AUGUST 4TH 2006 www.economist.com

Israel stuck in Lebanon

The PC at 25

Lessons from America's welfare reform

Viva, Zapatero

The world's most profitable bank

The future of globalisation

ONLINE FEATURES

Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers

GLOBAL AGENDA

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and

Print Edition July 29th 2006

On the cover
Complacency and neglect led to the wrecking of the world trade talks, and the consequences could be disastrous: leader

Previous print editions
Jul 22nd 2006
Jul 15th 2006
Jul 8th 2006
Jul 1st 2006
Jun 24th 2006
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week

Politics this week
Business this week

Leaders

Trade talks collapse
The future of globalisation

Israel and Lebanon
Stuck in Lebanon

The PC's 25th birthday
The dream of the personal computer

Welfare to work
Tough love works

The Democratic Republic of Congo
Mending Africa's broken heart

Spain
Viva, Zapatero!

Letters

On the Mumbai bombings, Pakistan, Tanzania, immigration, Berkeley, Mexico's election, executives

Special Report

The Suez crisis
An affair to remember

United States

Helping the poor
From welfare to workfare

Electricity supply
More heat than light

The Democrats
Hillary's American dream

Global warming
Alaska, ho!

Oil and gas in Oklahoma
It's an ill wind

Urban revival
Never mind the quality, see the length

The Americas

Peru's new president
Second time sober?

Demonstrations in Mexico
Learning by not doing

Mercosur's summit
Downhill from here

Asia

Japan's succession
Abe's opportunity

India
The railway man

The Mumbai bombing
The usual suspects

China
We'll jolly well say what we want to

Business

The PC's 25th birthday
Getting personal

Technology dinosaurs
Evolve or die

Nigeria's film industry
Nollywood dreams

Health care
Big deal

Marketing on MySpace
ForBiddeN fruit

Pachinko
Rules of the game

The Franco-Italian business axis
The odd couple

Face value
Booming Mr Boeing

Special Report

World trade
In the twilight of Doha

Finance & Economics

Bank of America
The new number one

Property funds in Japan
Space race

Property funds in Germany
Blood, sweat and REITs

Dividends in China
Can't pay, won't pay

Corruption in ex-communist countries
Judge or be judged

Economics focus
Venturesome consumption

Science & Technology

Alzheimer's disease
Puzzling out the truth

Animal behaviour
Elephant empathy

The Neanderthal Genome Project
A study with a lot of balls

Electric cars
Not so shocking

Books & Arts

Thailand's royalty
The impenetrable face of Thai monarchy

Nuclear proliferation
Opening the door

Slavery in west Africa
Stones of shame

Business Gifts

Advertisement

Indonesia
The bird flu capital of the world

Macau
The seven-year itch

Middle East & Africa

The Lebanese crisis
Can diplomacy be given a chance?

Lebanon's government
So who's running the show?

The ethics of war
Mind those proportions

Iraq
Carving up the capital?

Somalia and Ethiopia
The Osama factor

The Democratic Republic of Congo
Election fever

Europe

Spain
Zappy happy on the beach

French politicians
Publish or perish

Italy and the law
Why not let everyone off?

Germany's armed forces
Abroad, by inches

Turkish education
School scandals

Turkey and free speech
Flying insults

Britain

Housing
Field of dreams

Vodafone
A very unBritish coup

Northern Ireland
Rough justice

Child Support Agency
Death to the enemy of deadbeat dads

NHS reform
Fast forward

Animal rights
Good news for humans

Bagehot
End of term

Articles flagged with this icon are printed only in the British edition of *The Economist*

Modern poetry
Good companions

New fiction
Wanderings of a drugstore ship

Venetian art
The line of beauty

Obituary

Robert Brooks and Mickey Spillane

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Working hours

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Commercial property prices

Emerging-Market Indicators

Overview

Bond spreads

Economy

Financial markets

Advertisement

Classifieds

Jobs
Head of Gas Distribution Policy
Your move... - London SW1 The gas distribution policy team is r....

Business / Consumer
WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Management of Business French Training Project
THE MINISTRY OF TRADE, INDUSTRY, PRIVATE SECTOR & PSI ....

Jobs
Expressions of Interest - Papua New Guinea Democratic Governance Opportunities
Papua New Guinea Democratic Governanc....

Tenders
Request for Proposals: Transaction Advisory Services for the Privatisation of the Botswana Telecommunications Corporation

Jobs
Consultants: Financial Sector Policy, Development and Aid Policy
Consultants: Financial Sector Policy, Dev....

Sponsors' feature

About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Proudly Presented by =nEo=

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Jul 27th 2006
From The Economist print edition

AP

A fortnight after Hizbullah fighters attacked Israel and nabbed two soldiers, Israel continued to pound Lebanon in an effort to get them back and to force Hizbullah out of the south. America's secretary of state, Condoleezza Rice, toured the region, ending up at a conference of European and Arab leaders in Rome, where she blocked calls for an immediate ceasefire but proposed a UN force to help the Lebanese government assert control of all its territory. See article

Four UN peacekeepers were killed by Israeli bombs in southern Lebanon, making some governments warier of sending peacekeeping troops.

Israeli troops continued to fight Palestinian militants in Gaza in an effort to get back a captured soldier; 24 Palestinians were killed there, and 57 wounded, on July 26th.

After car-bombs killed scores more people in Baghdad, speculation grew that Iraq's capital may have to be divided into sectarian zones, in the manner of Beirut during Lebanon's 15-year war. Meanwhile, the trial of Saddam Hussein on charges of genocide resumed; the former dictator was being force-fed after spending the past two weeks on hunger strike. See article

The mood in the Democratic Republic of Congo was tense in the run-up to parliamentary and presidential elections on July 30th. Riots broke out amid accusations of intimidation by backers of President Joseph Kabila, who is favourite to win. See article

Minni Minnawi, leader of the only rebel group in the embattled province of Darfur to sign a peace agreement with Sudan's government, met George Bush, who urged him to co-operate with the other two groups, which have not yet signed.

The threat of war increased when Ethiopian troops entered Somalia to protect that country's weak transitional government against the Council of Islamic Courts, which now controls much of the south as well as the capital, Mogadishu. See article

Going nuclear

India declared that it would not accept any changes to a deal struck with George Bush allowing India access to American civilian nuclear technology. The United States Congress may try to toughen up the agreement as it considers the details.

China reportedly froze a number of North Korean accounts in a Macau branch of the Bank of China, apparently following an investigation into money-laundering. Accounts at another Macau bank were frozen last September, at America's request.

Thailand's three election commissioners were all sentenced to four years in prison for allowing unqualified candidates to run in a controversial election in April, which has since been annulled. The commissioners are to appeal against their convictions.

Three men convicted of the 2002 Bali bombings in Indonesia, in which 202 people died, are to be executed in August.

Secession talks

The first big meeting of leaders from Serbia and Kosovo was held in Vienna after six months of lower-level talks on Kosovo's future. But the meeting made little progress. Kosovo's leaders insist on independence; Vojislav Kostunica, the Serbian prime minister, said that there was no precedent that could be used as an argument for depriving Serbia of 15% of its territory.

Tensions rose between Georgia and Russia, as Georgia sent troops into a remote gorge in Abkhazia, a rebel-held region of the country. The Georgians are also demanding that Russian troops get out of South Ossetia, another breakaway enclave.

EPA

A week after George Bush cast his first veto, of a bill to permit federal funding of stem-cell research, the European Union decided that some of its public research budget could be used for the same end. Some central European members, supported by the Catholic Church, were against, but they were outvoted.

Europe was gripped by a heatwave as temperatures in Paris, London and Berlin exceeded those in Bangkok, Delhi and Hong Kong. The French government, mindful of the many deaths in a heatwave in August 2003, was on high alert. Many ministers and officials will, unusually, remain at work throughout August.

A bad week for free trade

EPA

Venezuela officially joined Mercosur, a South American trade grouping whose original members are Brazil, Argentina, Uruguay and Paraguay, at a summit on July 20th-21st. Cuba's Fidel Castro joined Venezuela's president, Hugo Chávez, in calling for resistance to free-market policies backed by the United States. See article

Donors pledged $750m in aid for Haiti, an impoverished and strife-ridden country whose fragile government was elected in February. That was more than the government had asked for to stabilise its economy, but it wants billions more to build roads and to improve health, electricity, security and institutions.

Andrés Manuel López Obrador, the leftist candidate defeated in Mexico's recent presidential election, filed a complaint against the country's election authority, claiming it allowed the illegal funding of ads by businesses opposed to his campaign. Mr López Obrador has demanded a vote-by-vote recount of the ballot, which he says was tainted by irregularities.

A lot warmer in January, too

Implying possibly the biggest change to America's presidential nominating process for 30 years, a Democratic committee proposed that Nevada should hold its caucus before New Hampshire's primary, and South Carolina shortly after it, in the 2008 contest. The decision should ensure that political issues dear to western and southern states become more prominent in the crucial early stages of campaigning.

In another blow to supporters of gay marriage, Washington state's Supreme Court ruled that a ban on same-sex nuptials was constitutional, overruling the decision of two lower courts, which said such a ban violated statutes on equal rights. New York state's highest court also upheld a ban on gay marriage earlier this month.

Bill Clinton attended a rally in Connecticut in support of Joe Lieberman, a beleaguered senator who is facing a tough primary challenge from an anti-war candidate.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Business this week

Jul 27th 2006
From The Economist print edition

The Doha trade round collapsed in acrimony when Pascal Lamy, head of the World Trade Organisation, said he was suspending negotiations because they had failed to reach a compromise on farm trade. His decision came after the United States, the European Union, Brazil, India, Japan and Australia held a meeting to try to save the talks. With an early resumption of the process unlikely, advocates for the Doha round expressed utter dismay. See article

A consortium of investors and private-equity firms, including Kohlberg Kravis Roberts, set the record for the biggest-ever buy-out in a $33 billion deal for HCA, one of America's largest operators of hospitals. Rumours flourished that a rival bid might be made for HCA, but with the family of Bill Frist, the Senate majority leader, playing a big part in the consortium (his father and brother founded HCA) the success of a counterbid seemed doubtful. See article

In a busy week for KKR, it also agreed to buy France Telecom's majority stake in PagesJaunes, a telephone-directory business operating in several European countries, for *euro*3.3 billion ($4.2 billion).

Oil and trouble

BP said it would increase spending on safety at its North American operations, which has attracted the ire of activists in the United States. The announcement came shortly before BP unveiled a quarterly profit of $7.27 billion. Separately, Lord Browne, the company's chief executive, confirmed he would retire at the end of 2008.

Oji Paper said it wanted to buy Hokuetsu Paper, which is committed instead to selling a 24% stake to Mitsubishi Corporation. It is thought to be the first time a Japanese blue-chip company has made a hostile bid for a domestic competitor and may be a sign that Japan's corporate culture is opening up to Western-style business practices.

GM's seeds bear fruit

General Motors pleased the market with its second-quarter earnings. The carmaker recorded a net loss of $3.2 billion, but the figure included charges relating to the early-retirement deal it struck with workers. Without the charges, GM made an adjusted profit of $1.2 billion. The company also exuded optimism about its cost-cutting targets, leaving analysts to ponder if all the good news would affect GM's potential alliance with Renault and Nissan.

Boeing reported its first quarterly loss (of $160m) in three years, as it booked more than $1 billion in charges, mostly stemming from its settlement with the Justice Department over an investigation into the aerospace company's defence-contracting. See article

The parent company of United Airlines said it expects to make its first profit in six years in the second quarter. The airline emerged from 38 months of bankruptcy protection last February, after a restructuring plan that cut jobs and pension benefits.

Hewlett-Packard announced its biggest acquisition since Mark Hurd took over last year, agreeing to buy Mercury Interactive, a provider of software systems to business. HP's share price fell on news of the deal, as investors feared that the $4.5 billion it will pay overvalues Mercury (which saw a number of executives leave last year amid a stock-option scandal).

Amazon's share price fell to a three-year low after it reported a 58% drop in second-quarter net profit,

compared with a year ago, to $22m and lowered its earnings outlook. The profitability of the online retailer is in doubt because of its heavy spending on new technology, including a widely anticipated digital-download service.

Advanced Micro Devices fed its rivalry with Intel by agreeing to buy ATI Technologies for $5.4 billion. The substantial deal marks AMD's entry into high-resolution graphics chips, used in computers, hand-held devices and gaming consoles.

At Vodafone's annual general meeting, Arun Sarin suffered an embarrassment when investors holding almost 15% of the shares failed to back his re-appointment as chief executive. Sir John Bond, Vodafone's new chairman, said he "subscribed" to statements of support for Mr Sarin, who is under increasing pressure to improve performance at the world's biggest mobile-phone operator. See article

Down home

Existing-home sales in the United States continued to soften in June, according to the National Association of Realtors. Further evidence of a slowdown in the housing market was reflected in the median home-price of $231,000, up just 0.9% on a year ago, and the number of unsold homes. At 3.7m, this represents 6.8 months' of supply (at June's rate of sales), the highest level since July 1997.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Trade talks collapse

The future of globalisation

Jul 27th 2006
From The Economist print edition

The wrecking of the world trade talks was senseless and short-sighted

Corbis

Get article background

WHEN the Middle East is ablaze, oil prices near record highs, the American economy cooling and the climate warming, it is hard to get excited about the beaching of trade talks. After all, globalisation is unstoppable: so what if a few technocrats in Switzerland packed up their briefcases and went home?

So a lot. Such attitudes were behind the wrecking of the Doha round of trade talks this week. This disaster, born of complacency and neglect, signals a defeat of the common good by special-interest politics. If the wreck is terminal—and after a five-year stalemate, that seems likely—everyone will be the poorer, perhaps gravely so.

It is not just the narrow business of the Doha round (if narrow is a fit adjective for an ambition to lift millions out of poverty, curb rich countries' ruinous farm support and open markets for countless goods and services) that is at stake. In the long run, the lack of commitment to multilateral trade that sank the Doha round this week will also start to corrode the trading system as a whole.

The world's most successful confidence trick

Old hands will find that alarmist. Trade talks always seem to break down before they succeed: the Uruguay round was supposed to be over in four years and dragged on for a painful eight. Farm trade, the cause of this week's collapse, has always been particularly contentious. Anyway, although a global deal may have been lost, regional ones between small groups of countries are doing the job at twice the speed and with half the fuss. The gains of previous trade rounds have been banked, and nobody is going to risk the prosperity created as China, India and others join the global economy by undermining trade.

Old hands need to look with new eyes, for this week's debacle constitutes the biggest threat yet to the post-war trading system. It marked the trade diplomats' surrender to the confidence trick on which the system is founded. And it betrayed a reckless disregard for the value not just of the Doha round, but also of the smooth working of world trade.

The benefits from free trade come more from imports than from exports. Imports of cheaper or better

goods give consumers more for their money and, through competition, raise domestic productivity. Multilateral liberalisation is a sort of jujitsu that uses exporters' determination to get into foreign markets to overwhelm domestic lobbies that would sooner keep home markets closed. The trade diplomat's incantation that to open his market is a "concession" granted in exchange for an opening somewhere else is economic nonsense spouted for domestic political purposes. But it is remarkably fruitful nonsense because, within the World Trade Organisation, any concession to one trade partner is automatically extended to all members. This trick has helped the world enjoy decades of prosperity.

Doha added a fiction all of its own with the idea of a "development round", seen as a clever way of giving grubby trade some moral appeal. But both tricks have now backfired, by persuading rich-country participants that, rather than boosting their own economies, they were sacrificing their national interests to those of foreigners.

No one country is to blame: many of the participants are culpable. India wanted fewer farm subsidies and lower tariffs but was unwilling to reduce barriers to farm goods and industrial products; the EU wouldn't cut its farm tariffs; America, the animating spirit behind earlier trade rounds, declared that a bad deal was worse than no deal at all—and meant it. The underlying rationale of unilateral trade liberalisation had been buried and forgotten long ago.

Which is why trade diplomats are looking to regional agreements as a better way to do business (see article). Such deals are certainly easier to pull off. A decade ago they were a rarity but now just about every WTO member is part of at least one.

In narrow terms, the merit of such deals depends on whether they create trade or divert it. But their broader effect may be damaging. Bilateral deals are complex and tend to be bad for poor countries. In multilateral deals, poor countries can piggyback on powerful countries' negotiating clout; in bilateral deals, they're on their own. And the more bilateral deals are in place, the harder it will be to pull off a multilateral one.

Those reckless wreckers

Is Doha's collapse just a failure to advance, rather than a reversal? Probably not. True, the seas of world trade are calm. Trade has been growing much faster than global GDP. High commodity prices and robust growth mean that the call for protection is low. But although the system will not fall apart overnight, with the years, the rust will set in.

Next year, the American president will lose the power that Congress has granted him to negotiate trade deals without them being picked to pieces by the legislature. That will make it hard to revive Doha. Rows about farm trade could be aggravated by next year's American farm bill. The ill will evident this week could spread if American and European manufacturers start to shed lots of jobs in a downturn. Western complaints about the piracy of intellectual property could sharpen rows with developing countries.

What's more, the WTO's crucial trade-disputes procedure could easily come unstuck. After this week's failure, next time the WTO rules against America, Congress will not take the offence kindly. Put all of these together, and it is easy to see how easily the whole trading system, not just one round of talks, could be wrecked.

The Doha round was launched after the attacks of September 11th 2001 as proof that a prosperous and united world could rise above Islamist terrorism. This week, faced once again with violence that they seem powerless to halt, political leaders had it within their scope to make the world better off. They failed.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Israel and Lebanon

Stuck in Lebanon

Jul 27th 2006
From The Economist print edition

Why this war is likely to be long, unless America tries harder to shorten it

Reuters

WHEN the war ends, and if he survives it, Sheikh Hassan Nasrallah will probably think twice next time he is inclined to send his fighters across the border to attack Israel. But that does not mean he will not send them, for Israel has so far failed in its efforts to crush Hizbullah in Lebanon.

Israel's air force has pounded every corner of that wretched country, killing hundreds of civilians and putting hundreds of thousands to flight, for more than two weeks. Yet this has not stopped Hizbullah from sending about 100 rockets a day in the opposite direction. All of Israel's efforts so far to kill Mr Nasrallah have failed as well. And so, of course, have its attempts to force Lebanon's government to take him on itself. If the mighty Israelis are not capable of defeating the Arabs' new Saladin, why should one of the region's most feeble and divided governments dare to try?

They have a plan

That simple military logic explains the paralysis that afflicted the would-be peacemakers in Rome on July 26th (see article). America and Israel want to end this war in a way that transforms the balance of power in the Levant. It is an appetising prospect. If Hizbullah's state-within-a-state can be dismantled, Lebanon's elected government could consolidate its independence from Syria and Iran and stabilise its border with Israel. The humbling of Hizbullah would curb the growing regional influence of Iran and send a sobering message to those Palestinians who have been inspired by Hizbullah to try to liberate the West Bank by violence rather than negotiation. Saudi Arabia, Jordan and Egypt would also be gratified by the clipping of Iranian wings, though they dare not say so openly.

It is because America wants to end the war this way that there was no call from Rome for an immediate, unconditional ceasefire. Condoleezza Rice, America's secretary of state, said that the previous arrangement should not be the basis for a lasting ceasefire. Before this war, Hizbullah was in control of Israel's border with Lebanon, and could provoke a clash at any time. The new idea agreed in Rome was to raise a United Nations force in order to help Lebanon's government assert its authority and disarm Hizbullah, in accordance with Security Council Resolution 1559 of 2004.

But raising such a force will take time. And even when it comes into being the Lebanese government is not going to be eager to impose its will on Hizbullah by force. Only if Israel clobbers Hizbullah hard

enough might Mr Nasrallah be in the market for some face-saving way to give the plan his blessing. But so far the war seems to be going well for him. The thousands of rockets he has fired at Israel have not yet killed many Israeli civilians, but they have brought normal life in much of Israel to a halt. On the ground his fighters have given Israel's war machine a jolt. With Muslims far and wide cheering him on, he may be in no mood to stop.

If Hizbullah does not want to stop the war, can Israel? Ehud Olmert, Israel's inexperienced new prime minister, is discovering the old truism that wars are easier to begin than to end. Most Israelis fully understood and supported his reasons for treating Hizbullah's cross-border attack of July 12th as an act of war. Israel withdrew from Lebanon six years ago but Hizbullah, like its Iranian sponsor, claims to seek Israel's complete destruction and seizes every pretext to fight on. Although Israelis are prepared to endure hardships to remove this mortal enemy, they have spent more than two weeks under fire with little to show for it. So Mr Olmert must choose between pressing bloodily on or suing for peace without having achieved his declared aim of destroying Hizbullah's military power.

The chances are the war will continue until Mr Olmert can point to some sort of achievement. Removing Hizbullah from the border would at least be that. Many Israelis would regard anything less as more than a humiliation. Climbing down would make Israel look weak both to Hizbullah and to other foes who need to be deterred, such as Hamas today and, possibly, a nuclear-armed Iran tomorrow. For that reason, for his own political survival and because the United States is still giving him time, Mr Olmert is likely to fight on. He may be consoled by the thought that Israel has not yet called up more than a fraction of its army, and that in past wars that started badly, notably the one in 1973, Israel has still gone on to win.

Such a calculation may or may not make sense for Israel. But it is not the right strategy for America. A war that neither side dares to lose and both believe it can win is a perilous thing. Apart from prolonging the killing, it risks escalating and spreading. How long before Syria and Iran try to restock Mr Nasrallah's arsenal and Israel tries to stop them? Even the pro-American Saudis are finding it hard to sit on the sidelines while the hated Zionists knock the stuffing out of Lebanon. Besides, whatever strategic advantage America stands to gain in Lebanon by giving Israel time to win is liable to be cancelled out by the corresponding drubbing America will receive in public opinion everywhere else in the Arab world, not least in Iraq. Whatever the rights and wrongs of this particular new fight, America's perceived partiality to Israel is a gaping hole in its policy in the Middle East. It should avoid widening it.

Call a stop now, without conditions

The right thing for America is to call for an immediate stop to the fighting, postponing its plans for the reordering of Lebanon until the period after the guns fall silent. This may not lead soon, or ever, to the disarming of Hizbullah, which means that Lebanon will remain unstable and Israel will still feel threatened. Nor would such an ending deal the desired blow to Hamas and Iran, which will continue to work against a negotiated Israeli peace with Palestine. But the truth is that Israel's military campaign shows little sign of being able to achieve these goals either. And it is just possible that once this pointless war is over Hizbullah will come under growing political pressure within Lebanon to avoid provoking another. Mr Nasrallah may of course feel strong enough to ignore a call for an immediate ceasefire. The war would go on. But then at least it would be plain who was to blame for the misery.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The PC's 25th birthday

The dream of the personal computer

Jul 27th 2006
From The Economist print edition

The IBM PC helped to democratise computing. Now to finish the job

Get article background

NOT many 25-year-olds can reasonably claim to have changed the world. The IBM personal computer, which was launched in 1981 and celebrates its 25th birthday in August, is a rare exception. Other personal computers had been launched before; but it was the IBM PC that ended up defining the standard around which a vast new industry then coalesced (see article). IBM, the titan of the computing world at the time, quickly lost control of its own creation, allowing others to reap the benefits. But leave aside what the PC has done for the fortunes of particular companies, and instead step back and consider what the PC has done for mankind.

The PC's most obvious achievement has been to help make computers cheaper, more widely available and more useful than ever before. Before it appeared, different computers from different manufacturers were mostly incompatible with each other. The PC's architecture was not perfect, but its adoption as an industry standard made possible economies of scale in both hardware and software. This in turn reduced prices and enabled the PC to democratise computing.

It is also worth celebrating the innovation that has been unleashed by the PC. Its flexible, general-purpose architecture has made it the platform on which new technologies, from voice-over-internet calling to peer-to-peer file-sharing, have been incubated. Most important of all, the PC has, in the past decade, turned primarily into a communications device, thanks to the rise of the internet. Cheap, fast global communication, online commerce, the ability to find the answer to almost any question on the web using a search engine and the many other wonders of the internet are all underpinned by the widespread availability of inexpensive, powerful PCs.

But although the PC has its merits, it also has its faults. Its flexibility has proved to be both a strength and a weakness: it encourages innovation, but at the cost of complexity, reliability and security. And for people in the developing world, PCs are too bulky, expensive and energy-hungry. When it comes to extending the benefits of digital technology—chiefly, cheap and easy access to information—to everyone on the planet, the PC may not be the best tool for the job.

Computing for all

Look on the streets of almost any city in the world, however, and you will see people clutching tiny, pocket computers, better known as mobile phones. Already, even basic handsets have simple web-browsers, calculators and other computing functions. Mobile phones are cheaper, simpler and more reliable than PCs, and market forces—in particular, the combination of pre-paid billing plans and microcredit schemes—are already putting them into the hands of even the world's poorest people. Initiatives to spread PCs in the developing world, in contrast, rely on top-down funding from governments or aid agencies, rather than bottom-up adoption by consumers.

Merchants in Zambia use mobile phones for banking; farmers in Senegal use them to monitor prices; health workers in South Africa use them to update records while visiting patients. All kinds of firms, from giants such as Google to start-ups such as CellBazaar, are working to bring the full benefits of the web to mobile phones. There is no question that the PC has democratised computing and unleashed innovation; but it is the mobile phone that now seems most likely to carry the dream of the "personal computer" to its conclusion.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Welfare to work

Tough love works

Jul 27th 2006
From The Economist print edition

Why America's pathfinding reform holds lessons for other countries

Corbis

A DECADE ago, Americans began a bold social experiment. In August 1996, Bill Clinton signed into law the bill that introduced "welfare to work". From that point, poor families could no longer claim welfare indefinitely as an entitlement. Instead, parents had to find a job.

The reform, controversial enough in America, was reviled in many parts of Europe. Its opponents said that welfare claimants, most of them single mothers, would be unable to find work. They and their families, it was argued, were being condemned to destitution.

Ten years on, such dire warnings have been proved spectacularly wrong (see article). America's welfare rolls have fallen by over half as existing claimants have found work and fewer people have gone on benefit in the first place. A strong economy, generating plenty of jobs, has undoubtedly helped; but the main reason for the steep decline in caseloads is the reform itself. Furthermore, there has been no upsurge in the poverty rate; in fact, it has fallen over the period. Most of the jobs taken by former claimants are poorly paid, but in general they are doing somewhat better than when they were on welfare.

The reform has succeeded by combining sanctions and incentives. The sanctions comprise strict limits on the length of time that benefits are paid. Families are normally not allowed to receive welfare for more than five years and all mothers are expected to work whatever the age of their children, although states can exempt those with a child under one. The incentives include financial support for low-income earners through a more generous Earned Income Tax Credit, which has burgeoned over the past ten years, and much higher public spending on child care.

Since success is infectious, several other countries have adopted features of the American reform. In Britain, the Labour government has administered tough love in its programme to prevent young people from getting stuck in unemployment. Despite some wretched administrative foul-ups, it has also greatly boosted financial support for poor working parents, including generous help towards child care.

Smaller European states like the Netherlands and Denmark have also introduced strict conditions to get people off welfare and have boosted incentives to work by making benefits less generous. The success of such policies in cutting unemployment has helped to convince more resistant countries like France and

Germany that they, too, must move away from entitlement to conditionality. Belatedly, they are starting to adopt similar measures as part of their drive to cut chronically high rates of joblessness.

Time out for time out

Much more could still be done. In Britain, for example, single parents can remain on welfare until their youngest child is 16. This needs to change. Australia, which has had a similar rule, is showing the way by reducing the age from 16 to six for new claimants this year; those with older children will have to look for paid work of at least 15 hours a week.

As important, the principles of welfare-to-work can be applied to other working-age people who in many countries have come to depend on welfare through disability payments. Whereas in Britain, for example, the jobless count has fallen sharply over the past ten years, the number of people claiming incapacity benefits has carried on rising. As a result, it now greatly exceeds those on unemployment benefit. Once people are on incapacity benefit, they tend to remain on it. Yet most are able to work. Again, a mixture of conditionality and in-work support is needed to make reform effective. These principles now lie behind a long-overdue effort in Britain to reduce the number of claimants.

Welfare recipients, whether lone parents or the long-term unemployed or many disability claimants, tend to be poorly educated with few skills. Help with basic learning and training for people re-entering employment is another way in which welfare reform can be improved. And what's even more important is to ensure that children do better in school in the first place.

Welfare reform was once regarded as a harsh, right-wing, America-only idea. But an unexpected lesson of the past ten years is that it enjoys much wider political appeal. Within America, its success has silenced the former fierce opposition of left-wing Democrats, which Mr Clinton had overruled. For the Labour government in Britain and for social democrats in Europe, reform offers a way to reintegrate people who would otherwise live in a welfare apartheid. Furthermore, it is a way to defend generous support for the poor—as long as they find work. Another attraction for developed countries as their populations age is that it mobilises more employment to maintain living standards and help pay for the old. And, best of all, it works.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Democratic Republic of Congo

Mending Africa's broken heart

Jul 27th 2006
From The Economist print edition

The best chance for a generation, unless the world walks away

AFP

THE Democratic Republic of Congo has been lots of things—impoverished, divided, blood-stained and tyrannised—but never democratic. Plundered for decades by one of the continent's cruellest and most rapacious dictators, President Mobutu Sese Seko, it has been torn apart by civil war since his regime collapsed in 1997. Almost 4m people are reckoned to have died—more than in any other conflict since the second world war. The term "failed state" could have been invented to describe the place.

So the country's first free and fair presidential and parliamentary elections, due on July 30th, will be a landmark (see article). The prospect of the vote has raised expectations among Congolese that their country is at last on the road to recovery. Since a peace agreement was implemented in 2002 between the government and various warring parties, unprecedented efforts have been made at home and abroad to keep the peace and create a rudimentary infrastructure for the election. Registering nearly 26m voters and setting up 53,000 voting stations in a country the size of western Europe, with no good roads in the whole place, has been the most complicated and expensive electoral-assistance mission ever undertaken by the United Nations. And the 17,600-strong peacekeeping force in Congo is the largest the United Nations has ever put together.

Congo's sheer size and vast mineral riches mean that what happens there has an all-too-direct bearing on the fate of a large chunk of central Africa. Mobutu's fall sucked Congo's predatory neighbours into a free-for-all as the country fell to bits. Now the hope is that a stronger, more democratic Congo will help make the region, including once-blood-soaked Rwanda and Burundi, more stable too.

Opposition parties accuse the incumbent president, Joseph Kabila, of widespread intimidation. The Catholic Church (more than half of the population of 56m is nominally Catholic) has told voters to abstain unless concerns about vote-rigging are met. And it is said that because of an administrative glitch, more than 1m voters could turn up to find that their names are not on the electoral register. At best, the hope is that a rough and ready poll that more or less reflects the feelings of most of the people will give an emerging government (probably under Mr Kabila) a fresh wind.

Elections alone are not a panacea: Iraq and Afghanistan are testimony to that. Even if the vote seems reasonably fair, a new government may struggle to gain its legitimacy, and could find it as hard as its predecessors to exercise real power.

If he is wise, Mr Kabila will construct a broad-based administration to heal the wounds of the past. But Congo will still need the continued help of outsiders. In particular, the UN should resist the temptation to withdraw its peacekeepers early. They may still be sorely needed if the results are contested and former warlords, disappointed by the outcome, return to their violent ways.

Stay on after the vote

But if Mr Kabila is re-elected, his foreign supporters should not give him a free pass. He has been better at making promises than at keeping them. The army, in particular, needs sorting out. It is controlled by competing politicians, and Mr Kabila has unwisely given top army jobs to several men accused of war crimes. He needs to be encouraged to build a genuinely national army.

The other priority of any new government must be to tackle the corruption for which Congo is a byword. Some say it goes too deep to eradicate. But the new government will have to try if it is to win the trust both of its own people and of foreign investors and governments. Foreigners, who in the past have played their part in skimming Congo's commodity revenues, could make amends by helping to keep things clean.

Congo is one of the world's hardest countries to govern. But the election offers the best chance in a generation to build peace and prosperity—provided the rest of the world does not lose interest too soon.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Spain

Viva, Zapatero!

Jul 27th 2006
From The Economist print edition

An unexpected tale of success in Madrid

AP

SELDOM can a European prime minister have had a less auspicious start. It was only days after al-Qaeda's Madrid train bombings on March 11th 2004 that the Socialists unexpectedly won an election in Spain, propelling their leader, José Luis Rodríguez Zapatero, into the top job. Mr Zapatero was inexperienced, ill-prepared and unprepossessing; he was nicknamed "Bambi", as he often looked like a startled fawn caught in the headlights. His very first action was to pull Spanish troops out of Iraq, infuriating the Americans and provoking charges of appeasing terrorism.

How different it all looks today. No other European leader is as popular or as entrenched at home as Mr Zapatero. It is true that, under his predecessors, the European Union has for many years seen post-Franco Spain, like Ireland, as one of its great success stories: modern, democratic and increasingly prosperous. The Spaniards are masters at extracting money from Brussels. And they have carefully and gradually freed up an economy that was (and to an extent still is) unduly mired in red tape.

Mr Zapatero has added three achievements to this list. The first, and perhaps most important, was not to muck it all up. His experienced finance minister, Pedro Solbes, has kept the public accounts in order. The government has not succumbed to leftists' usual fondness for too much new regulation or interference in the labour market—indeed, unemployment, albeit still over 8%, is at its lowest for 25 years. Within the EU, Spain under Mr Zapatero has usually, if not always, been on the side of the liberalisers and in favour of the Lisbon Agenda to promote competitiveness—more so than the three other big euro members, France, Germany and Italy.

The prime minister's second achievement has been to tackle Spain's restive regions. His People's Party predecessor, José María Aznar, was positively Castilian in his determination to maintain Madrid's grip and refuse to negotiate. Yet Mr Zapatero quickly began to discuss a new deal with Catalonia. He also reached out to the Basques, even offering to talk to ETA if the terrorist group declared a permanent ceasefire. The People's Party pilloried him for giving in to the gun and, more generally, risking the break-up of Spain. Yet Mr Zapatero has now delivered a new statute for Catalonia that uses the word "nation" but stops short of self-determination, let alone independence. After securing his permanent ceasefire, he is also going to talk to ETA. The prospect of a settlement in the Basque country looks the best in a generation.

In all this, Mr Zapatero has faced relentless opposition from the People's Party, as he has in his third area

of achievement: the modernisation of Spanish society. Before he arrived, the Catholic Church still held great sway in such matters as attitudes to sex or religious instruction in schools; and open debate about the Spanish civil war remained taboo. Mr Zapatero's government has passed some of the most liberal laws in Europe, including legalising gay marriage. He has also opened up debate about the civil war, in which his own grandfather was shot dead by nationalists. If it can come to terms with its past, Spain will surely be better able to face its future.

The economy, stupid

There are some causes for concern. As British experience in Northern Ireland suggests, talks with ETA may be long, painful and perhaps unsuccessful. Other regions may now insist on more autonomy. The church's hostility could damage the Socialists. Most worrying of all, Spain's prosperity is precarious: the current-account deficit is gaping, the economy is far too dependent on a boom in property and construction, inflation is rising and, locked inside the euro, Spanish industry is fast losing its competitiveness (see article).

The economy clearly needs more deregulation, not the fostering of national champions that Mr Zapatero has espoused. Yet overall he has proved a better prime minister than critics expected. The opposition People's Party is in disarray, so his party is well placed to win re-election in 2008. Other leaders, not least George Bush, with whom Mr Zapatero's relations remain frosty, should take note: this prime minister, presiding over the world's ninth-biggest economy, will be around for a while. He should be treated with due seriousness—despite that "appeasement" over Iraq.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

On the Mumbai bombings, Pakistan, Tanzania, immigration, Berkeley, Mexico's election, executives

Jul 27th 2006
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Attacks in Mumbai

SIR – The sermonising tone of your leader on the bombings in Mumbai was disappointing ("India's horror", July 15th). India has been attacked, again, not because it "has consistently dragged its feet, offering talks and more talks" over Kashmir, but because its leaders have not shown the political will to stamp out terrorism along with all its bases of support. Both the intelligentsia and the masses in India are fed up and want the security forces to take strong action against the perpetrators of these crimes.

This will no doubt meet with your disapproval because you so badly want us to trust Pakistan's president, General Pervez Musharraf, who, by the way, led the most covert offensive against India in recent times when in charge of Pakistan's army during the 1999 Kargil incursion.

Yogesh Chiplonkar
Mumbai

SIR – So mayhem in Mumbai means a solution to Kashmir must be found. Yet when the same treatment was meted out to London there was little push for action to resolve Iraq or the other "situations" that feed the war on terror. The old bias persists. In the developing world we deserve what we get, while in the West innocence and good intentions are taken for granted.

Dominic Watson
Mumbai

Travel advice

SIR – Your survey of Pakistan stated that Britain advises its citizens "not to visit [Pakistan] because there is a risk that they might be killed by Islamist militants" (July 8th). This is not true. The Foreign Office does indeed warn in its travel advice that there is a high threat from terrorism and sectarian violence throughout Pakistan and advises against all travel to the federally administered tribal areas and all but essential travel to northern and western Baluchistan. It does not, however, warn against travel to the vast majority of the country and there is nothing to stop British citizens visiting and doing business in Pakistan, if they exercise vigilance.

Sir Mark Lyall Grant
British High Commissioner
Islamabad

Back to basics

SIR – Bless the World Bank's Independent Evaluation Group for saying the obvious about education: that learning matters more than classrooms and enrolments (Economics focus, July 15th). In Tanzania, where Paul Wolfowitz, the bank's president, recently visited "success schools", the bank's education advisers have long trumpeted quantitative achievements. Meanwhile, quality stagnates, teachers lack morale, teaching is by rote and pupils graduate without basic skills. When HakiElimu, a local NGO, raised these questions the government took umbrage and banned its studies and television adverts.

Rakesh Rajani
Executive director
HakiElimu
Dar es Salaam, Tanzania

Politics 101

SIR – By quoting such phrases as "anti-immigrant demagogues" and describing the "rant" of right-wingers, you mischaracterise the debate on immigration that America is currently having ("The wrong side of history", July 15th). This debate has, in fact, been remarkably civil and a textbook example of how the United States' system of checks and balances is supposed to work. After all, this is not the country in which an atavistic, chauvinistic, xenophobic nutter made the run-off in a presidential election. No leading advocate either for or against illegal immigrants has had to leave the country. And no one has been shot because of their stance on immigration policy.

Opinion on the immigration "problem" is scattered and quite diverse and the Madisonian system is designed to slow legislative action in the absence of a national consensus. This is why Republicans in the House of Representatives have decided to take their version of immigration reform on the road in an attempt to sell it to voters or listen to the alternatives. That is the way it is supposed to function.

Richard Hofferbert
Distinguished professor emeritus
State University of New York, Binghamton
Binghamton, New York

Liberal America

SIR – As both a long-time resident of Berkeley and a reader of *The Economist*, I deplored your use of a tired right-wing cliché by referring to Berkeley as a "People's Republic" ("Cries from here and there", July 15th). Berkeley is a vibrant town as well as the seat of one of the world's great universities. While its politics may be strongly Democratic, angry opposition here to George Bush's foreign-policy disasters and domestic blunderings (inroads on civil rights, Medicare drug-prescription benefits, Hurricane Katrina, to name just a few examples) is widely echoed elsewhere in the United States and can hardly be labelled as mere "pinko" sentiment.

Stanley Lubman
Berkeley, California

Recounting an election

SIR – It may well be that in Mexico's recent election the "relatively new democratic machinery" performed well and "election observers found no evidence of serious irregularity" ("Behind the confusion", July 8th). But you do not need "serious" irregularities to overturn a lead of 0.58% and many irregularities have been reported by political parties and the public. For a lot of Mexicans, it seems that the "old" democratic machinery is working for the new ruling group. While it was impractical to address the allegations during the campaign, it is at least possible to carry out a vote-by-vote recount to clear some of the doubts. Not doing so jeopardises the credibility of the democratic process and the legitimacy of the next president.

Lucía Buenrostro
London

SIR – So Andrés Manuel López Obrador has "almost no knowledge of, nor apparent interest in, the outside world. He has shown a certain contempt for the rule of law and for…modern democratic institutions, such as the Supreme Court, the independent central bank and the electoral authority" ("Change, please", July 1st). Eerily familiar, and for those very reasons we should not misunderestimate this man.

Loren Gatch
Norman, Oklahoma

Executive non-decision

SIR – May I add another observation to those listed in your article on advising new executives about how best to settle in to their positions ("That tricky first 100 days", July 15th)? I call it the "died and gone to heaven syndrome" and it is applicable to those whose new job represents a significant promotion. Once on board, the new executive spends so much time contemplating his good fortune, that he totally overlooks the fact that he has been hired to do something. Furthermore, the new hire is supervising people who have been judged unworthy to fill the position in question. I have watched this one play out quite a few times, always with unhappy results.

John Green
Southport, Connecticut

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Suez crisis

An affair to remember

Jul 27th 2006
From The Economist print edition

The Suez crisis of 50 years ago marked the end of an era, and the start of another, for Europe, America and the Middle East

Corbis

Get article background

ON JULY 26th 1956 Gamal Abdul Nasser, president of Egypt, addressed a huge crowd in the city of Alexandria. Broad-shouldered, handsome and passionate, Nasser stunned even this gathering of enthusiastic supporters with the vehemence of his diatribe against British imperialism. Britain had ruled Egypt, one way or another, from 1882 to 1922, when the protectorate gained nominal independence, and continued to influence Egyptian affairs thereafter, maintaining troops there and propping up the decadent monarchy overthrown by Nasser in 1952.

In that speech in Alexandria, though, Nasser chose to delve back even further into history, in a long digression on the building of the Suez canal a century earlier. That gave him the chance to mention the name of the Frenchman who had built the canal, Ferdinand de Lesseps. This he did at least 13 times. "De Lesseps", it turned out, was the codeword for the Egyptian army to start the seizure, and nationalisation, of the canal. It also launched the start of a new era in the politics of Europe, the Middle East and America.

The Suez crisis, as the events of the following months came to be called, marked the humiliating end of imperial influence for two European countries, Britain and France. It cost the British prime minister, Anthony Eden, his job and, by showing up the shortcomings of the Fourth Republic in France, hastened the arrival of the Fifth Republic under Charles de Gaulle. It made unambiguous, even to the most nostalgic blimps, America's supremacy over its Western allies. It thereby strengthened the resolve of many Europeans to create what is now the European Union. It promoted pan-Arab nationalism and completed the transformation of the Israeli-Palestinian dispute into an Israeli-Arab one. And it provided a distraction that encouraged the Soviet Union to put down an uprising in Hungary in the same year.

It also divided families and friends, at least in Britain and France, with a degree of bitterness that would not be seen in a foreign-policy dispute until the invasion of Iraq in 2003. If that is difficult to understand, remember that the world was a different place then. Many European politicians still believed their countries had a right to run the affairs of others. Many were also scarred by memories of appeasement in the 1930s. Faced with a provocation, even an entirely legal one involving the nationalisation of a foreign-

owned asset like the Suez canal, the instinct of such Europeans was to go to war. They and their Israeli partners-in-invasion were restrained, eventually, by the United States, led by a Republican president and war hero, Dwight Eisenhower. The venture involved intrigue, lies, nemesis—and no end of a lesson. How did it come about?

The road to collusion

In Egypt, the British had become so resented for their racist, arrogant ways that by the early 1950s even Winston Churchill, the grand old imperialist who had returned as prime minister in 1951, felt he could resist the tide of nationalism no more. After 1951 the British were confined to the Suez canal zone, harassed by Egyptian irregulars who wanted them out altogether. By June 1956 the last British soldiers had left even the canal zone.

Yet Anglo-Egyptian relations did not improve. Nasser was enraged by America's withdrawal of its offer of loans to help pay for the building of a dam on the Nile at Aswan. This project was central to his ambitions to modernise Egypt. But John Foster Dulles, the American secretary of state, thought the dam would place too much strain on the resources of newly independent Egypt.

For their part, the British, mistrustful of Nasser and feeling the pinch, were also ready to withdraw their loan offer. So, thought Dulles, best to let the Russians take on the dam, as he knew they would if the West backed out. He did not, however, bargain for Nasser's immediate response—the nationalisation of the Suez canal, whose revenues, Nasser argued, Egypt now needed to replace the loans promised by Britain and America for the dam.

The reaction in Britain was unanimous in condemning "Grabber Nasser", as the *Daily Mirror* put it. Comparisons were immediately made to Hitler and Mussolini in the 1930s: if he got away with this, where would he—and other emboldened post-colonial leaders—stop? Eden, who had succeeded Churchill as prime minister the year before, argued that the canal was Britain's "great imperial lifeline", especially for oil. Nasser could not be allowed to have his hand "on our windpipe".

The French reacted just as strongly, but for different reasons. First, they had a stake in the Paris-based company that ran the canal. Second, they were fighting an increasingly nasty little colonial war in Algeria. The new government of Guy Mollet was resolved to put down an Arab uprising there with all the force that the Fourth Republic could muster. By the summer of 1956 France had about 400,000 soldiers in Algiers. Nasser backed the Arab insurgents, so the French were as eager as the British to see the back of him. Accordingly, Britain and France started to co-ordinate plans for a military invasion of Egypt and a reoccupation of the canal zone.

But their bellicosity was matched by the scepticism of the Americans, and of Eisenhower in particular, who from the beginning was against the use of force by his two main allies. One concern for him was the

presidential election due that November, which he intended to win as the incumbent "peace" president. He knew that the voters would not thank him for taking them into a foreign imbroglio in which America had no direct interest.

Eisenhower was also motivated by an anti-imperialism rooted in the attitudes that had made Americans break free from the British empire. Intensifying his scepticism was a fear that, in the new cold war, any British and French bullying of Egypt would alienate Arabs, Asians and Africans and drive them towards the communist camp. To head off Anglo-French military action, Eisenhower and his secretary of state ensnared the Europeans in a fruitless round of talks and conferences.

Aware that they were on shaky legal ground for an invasion, the British and French reluctantly played along. But they were losing the momentum for military action, which was the American intention. The increasingly histrionic Eden, in particular, wanted not only the reversal of the canal's nationalisation but also regime change: he wanted Nasser "destroyed".

The Israelis provided a way out. On September 30th a delegation secretly presented the French with a fabricated *casus belli*: Israel would invade Egypt and race to the canal. The French and British could then invade, posing as peacekeepers to separate the two sides, and occupy the canal, ostensibly to guarantee the free passage of shipping. When this plan was presented to Eden, he jumped at it. Thus was collusion born. The details were agreed on at a secret meeting in Sèvres, outside Paris. Not for nothing is the Suez crisis known in Egypt as the "tripartite aggression".

The British and French forces now had a pretext to invade. For the Israelis, it would punish Egypt for its escalating incursions into Israel from Gaza. It would also hitch the major European powers to the cause of Israel: up to that point, the French had tried to be even-handed between Israel and its neighbours; the British had leaned towards the Arab states.

A complete mess and botch

Only a handful of people were let in on the collusion. Most of them thought it was mad from the start, arguing, quite correctly, that the cover for the invasion was so flimsy it would soon be blown. To disguise what was going on, the British, in particular, were drawn ever deeper into a bog of lies and deception, particularly with the Americans. Parliament was also deceived. Both Eden and Selwyn Lloyd, his foreign secretary, told the House of Commons that, as Lloyd put it, "there was no prior agreement" with Israel.

On October 29th, Israeli paratroopers, led by a zealous officer called Ariel Sharon, were dropped into Sinai to fulfil their side of the bargain. Feigning surprise, the British and French issued an ultimatum to both sides to cease fire. When the Egyptians rejected this, British planes started bombing the Egyptian air force on the ground and on November 5th Anglo-French troops went ashore to begin the invasion of the canal zone and, it was hoped, topple Nasser.

Eisenhower, kept completely in the dark, felt utterly betrayed by his erstwhile allies. "I've just never seen great powers make such a complete mess and botch of things," he told his aides. He determined to put a stop to the whole enterprise.

America struck at Britain's fragile economy. It refused to allow the IMF to give emergency loans to Britain unless it called off the invasion. Faced by imminent financial collapse, as the British Treasury saw it, on November 7th Eden surrendered to American demands and stopped the operation, with his troops stranded half way down the canal. The French were furious, but obliged to agree; their troops were under British command.

America also proved adept at working through the UN. On November 2nd an American resolution demanding a ceasefire was passed by a majority of 64 to five, the Russians voting with the United States. And to sidestep Anglo-French vetoes at the Security Council, for the first time the General Assembly met in emergency session (where no country held a veto) and took up a Canadian suggestion to assemble an international emergency force to go to the canal and monitor the ceasefire. These were to be the first "blue hat" UN peacekeepers. The organisation was one of the clear winners of the crisis, gaining an enhanced role in the world. For the other participants in the drama, the consequences were more mixed.

The French drew the clearest lessons. Suez showed that they could never rely on *perfide Albion*. Britain, then Europe's strongest power, would, it seemed, always put its "special" relationship with America

above its European interests. And the Americans, to the French, were both unreliable and annoyingly superior.

So the French would have to look elsewhere for more durable allies—a search that was, by one account, short. The story goes that on the evening of November 6th, when Mollet got the call from Eden that he was aborting the invasion, he happened to be with the German chancellor, Konrad Adenauer. The French foreign minister, Christian Pineau, records Adenauer as saying that "France and England will never be powers comparable to the United States...Not Germany either. There remains to them only one way of playing a decisive role in the world: that is to unite Europe...We have no time to waste; Europe will be your revenge."

Thus was born the six-country European common market, which has now become the 25-country European Union. The founding Treaty of Rome was signed the very next year, in 1957. And the French, particularly Charles de Gaulle in the 1960s, kept the British, America's Trojan horse, out of it for as long as they could, until 1973. France had by then made itself truly independent of American military power (unlike the British) by building its own nuclear deterrent from scratch and, in 1966, leaving NATO's integrated command structure.

It should have been no surprise, then, that in the months before the invasion of Iraq in 2003, it was the French who played the American role of 1956, though Jacques Chirac could hardly deliver the *coup de grâce*, as Eisenhower had done in 1956. In reaction to Suez, France had constructed a new identity as the ostensible leader of Europe, upholding a set of universal values in competition with the Americans.

The British were hurt most by Suez. Eden resigned soon afterwards, his health wrecked, his reputation in tatters, his lies and evasions damaging the country's always tendentious reputation for fair play. The crisis exploded Britain's lingering imperial pretensions, and hastened the independence of its colonies.

Some talked of a "Suez syndrome", where, in Margaret Thatcher's words, Britain's rulers "went from believing that Britain could do anything to an almost neurotic belief that Britain could do nothing". Certainly, much of Mrs Thatcher's prime ministership, particularly the retaking of the Falklands in 1982, was an essay in exorcising the demons of Suez. Tony Blair has not been afraid to take advantage of her success, by deploying British power in Sierra Leone, the Balkans and Iraq.

But never without the Americans' support. The major lesson of Suez for the British was that the country would never be able to act independently of America again. Unlike the French, who have sought to lead Europe, most British politicians have been content to play second fiddle to America.

Eden recuperated from the crisis in Ian Fleming's house, Goldeneye, in Jamaica. It was an appropriate choice, as it was Fleming who was to mythologise the new relationship in his James Bond novels. The first, "Casino Royale", was published to little attention in 1953, but the series took off in the years after the Suez crisis, offering some sort of literary consolation to a country coming to terms with its new, humbler status. The partnership between Bond and Felix Leiter, a CIA agent, reflected the way the British now liked to see things, the one suave, smart and endlessly resourceful, the other with a lot of money and a slightly plodding manner.

Eisenhower won his election in America. The crisis affirmed the country's new status as the global superpower, challenged only by the Soviet Union. Suez was also to be the last incident in which America was to take strong action against Israel. As Eisenhower had feared, the Russians moved into the Middle East to fill the gap left by the disorderly retreat of the British, so the Americans felt compelled to get in as well. Thus the cold war spread to north Africa and Egypt (the Russians duly stepped in to finance the Aswan dam, and much else), and Israel became ever more closely tied to the United States.

Before 1956, Israel had been militarily vulnerable, but, beyond the Arab world, morally and politically unassailable. The Israeli occupation of Sinai (and Gaza) in 1956 began the gradual inversion of this state of affairs, as it marked the first expansion of Israel beyond its original borders, with all the subsequent criticisms of its occupation of Arab or Palestinian land. In 1956 the Israelis were quickly forced to withdraw from Sinai by American (and Russian) pressure. Never again, however, would an American president face down Israel as Eisenhower had done at Suez.

The rise of Nasserism

The chief victor of Suez, in the short term, was Nasser. Before the crisis he had faced lingering opposition

in Egypt, not only from the former ruling class but also from communists and the radical Islamists of the Muslim Brotherhood. "Pulling the Lion's tail", and getting away with it, proved wildly popular. As dissidents fled, fell silent or filled its jails, Nasser's Egypt projected itself as the vanguard of Arab nationalism and a beacon to liberation movements across the third world.

Puffed up by his own success, Nasser launched misguided adventures such as a short-lived political union with Syria and disastrous nationalisations of Egyptian industry. And the Nasserist dream inspired a wave of pan-Arab nationalism that helped install lookalike leaderships, with similar flags, propaganda and secret police, across much of the Arab world. Saddam Hussein was one who drew inspiration. Nasser himself was largely discredited by Israel's crushing victory in the 1967 war, but the institutions of Nasserism still lived on, in Egypt and elsewhere, as effective systems of political control.

AFP

No end of lessons

Nasser's 1956 triumph endured in Arab memory as a moment of cathartic liberation. It inspired, to some extent, Saddam's dramatic moves, such as invading Iran and later Kuwait. A famous Egyptian film, "Nasser 56", lingers nostalgically over the Egyptian leader. Amid rousing music, he is portrayed in black and white, shrouded in pensive solitude by a swirl of cigarette smoke, reaching his momentous decision to nationalise the canal. But the film jumps to the happy outcome, ignoring the fact that Nasser's victory was not won by this new Arab superman, but delivered by superpower intervention.

A wider lesson lies in the interpretation of history. Eden, who had honourably resigned as foreign secretary in 1938 in disapproval of the appeasement of Hitler and, especially, Mussolini, was nonetheless haunted by Neville Chamberlain's readiness to yield to tyrants. His impulses at Suez were surely complex. Eden was far from anti-American or indifferent to American concerns. He had resigned in 1938 partly because he thought his prime minister, Chamberlain, had treated Roosevelt shabbily. Yet he saw Nasser as a "Mussolini" and was plainly determined to avoid any charge of appeasement, even though the essential features of Munich and Suez were wholly different. Instead of saying that those who cannot remember the past are condemned to repeat it, George Santayana might have better said that those who misinterpret the past are condemned to bungle the present.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Helping the poor

From welfare to workfare

Jul 27th 2006 | CHICAGO, CLEVELAND AND MILWAUKEE
From The Economist print edition

Eyevine

Ten years on, America's work-based welfare reforms have succeeded. Now the country must think harder about the working poor and their children

SIX years ago, social workers in Cleveland, Ohio braced for a disaster. The first wave of welfare families were about to reach the time limits that Ohio had set for receiving benefits, and would soon have their cash handouts cut off. Across the country, states had imposed similar time limits as part of the ambitious welfare reforms that America enacted a decade ago this summer. Republicans drew up the new rules after winning control of Congress for the first time in over 40 years. And in August 1996, having promised during his 1992 presidential campaign to "end welfare as we know it", Bill Clinton signed a law that required the states to push welfare recipients into jobs—an approach popularly known as "workfare".

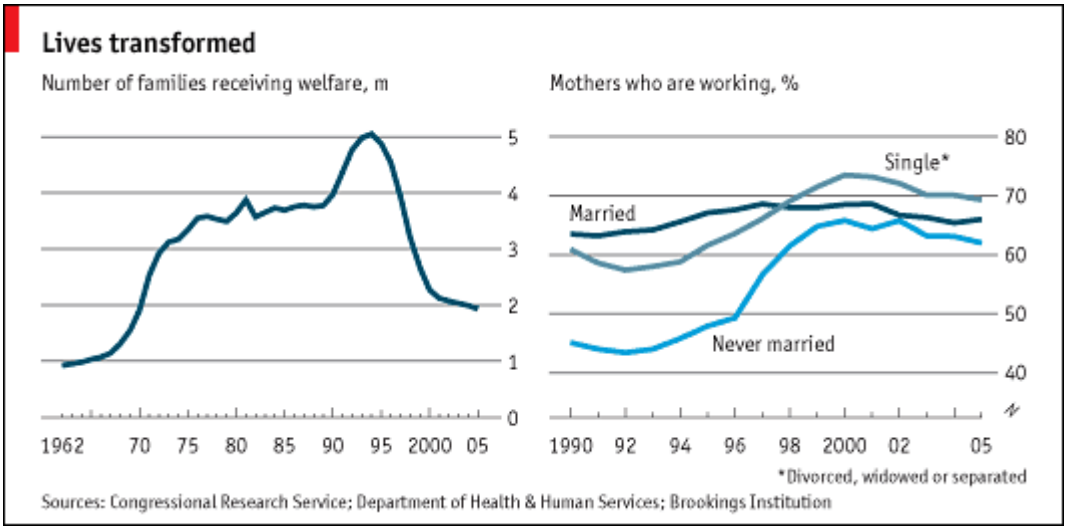
The law also gave the states incentives to shrink their welfare caseloads, and forced them to limit families to five years or less of federal money. That federal money was converted into block grants, and the states were given flexibility to spend it as they saw fit. The time had come, said Phil Gramm, a Republican senator from Texas, for those on welfare "to get out of the wagon and help everybody else pull."

Conservatives such as Mr Gramm were confident that poor mothers would find work if they were forced off welfare. But many other Americans had doubts. The Urban Institute, one of the left's most prominent think-tanks, said that the changes would push 1.1m more children into poverty.

So in the autumn of 2000 Joseph Gauntner, the director of Employment and Family Services for Cuyahoga County—which includes Cleveland—prepared for the coming storm. Social workers were given bundles of cash to sort out pressing problems as needy families lost their benefits, and county workers sat by the phones to handle the emergency calls. But when the time limits took effect, says Mr Gauntner, "the phones didn't ring". Most of the mothers who lost their benefits had either lined up jobs or were already working.

The emergency lines were silent in many other parts of America too, even as families left the welfare rolls in droves. After peaking in 1994—when many states began experimenting ahead of the federal law—America's welfare caseload fell by 60% over the next decade, from 5m to 2m families. Instead, welfare mothers found work, and the biggest increase by far was among those who had never been married.

Their employment rate leapt from 44% in 1993 to 66% in 2000 (see chart) and the poverty rate, instead of rising sharply, dropped from 15.1% to 11.3%.



A decade ago, much of the political left believed that such a rapid transition from welfare to work was impossible, and the reforms cruel. Why did they turn out so much better than the doomsayers predicted? A booming economy surely deserves some credit. The unemployment rate fell by 2.7 percentage points from 1993 to 1999, as rapid growth prompted employers to create more jobs. A healthy economy, however, was only part of the story. Last year Jeffrey Grogger, at the University of Chicago, and Lynn Karoly, at the RAND Corporation, published a book summarising scores of studies of welfare reform, including nine that tried to gauge the role of the strong jobs market. At best, falling unemployment accounted for only one-third of the drop in welfare caseloads.

Wage subsidies also helped a great deal. In 1993, the government sharply increased the earned-income tax credit (EITC), which helps low-income workers by adding federal money to their wages. That made work more rewarding, and many single mothers were quick to give it a try.

The 1996 welfare reforms themselves, however, clearly explain much of the success. Jason Turner—a visiting fellow at the Heritage Foundation, a conservative think-tank—argues that "the political left believed in a hospital model of the poor: caretaking and compassion with low expectations." America's conservatives expected more. And as it became clear to welfare recipients that the rules had changed, many of them began meeting those expectations.

States responded to the new federal targets and greater flexibility by overhauling their welfare offices, in some cases turning over the whole process to private firms. Many offices stressed work from the moment people stepped through the front door, sometimes signing them up for job-training sessions as soon as they applied for welfare. Some states required applicants to try job searches before they could be eligible for cash benefits. Welfare offices around the country put up banners and posters extolling the new philosophy.

Using their federal block grants, the states have also shifted much of the money they were doling out as cash benefits, into new programmes that support work. They are now spending much more to help working mothers get child care, for example, and also devoting more money to health care, transport subsidies and so forth.

Winners and losers

Merely getting single mothers into work, however, has not boosted incomes all that impressively. The earnings of women who left welfare rose by more than their cash assistance fell: on balance their net incomes increased by about 25% in real terms over the first few years, according to Ron Haskins of the Brookings Institution, a centrist think-tank. Even lifting incomes by one-quarter, however, still leaves many poor families just scraping by. Equally important, those averages conceal much variation.

Some women have been able to emulate the slogan that has adorned the walls of many welfare offices: "A job, a better job, a career". Margie Davis of Project Match, a non-profit agency that offers job-search

and other services in Chicago, says she has seen many women follow this path. After leaving welfare for a job at the checkout till, they got enough training and education, often with government help, to become nurses, teachers or social workers. Those jobs not only boost their pay sharply, says Mrs Davis, but also provide better health insurance and schedules flexible enough to let them care for their children more easily. As a result, the quality of some women's lives has improved dramatically. As those lives evolve, says Mrs Davis, she also goes to a lot of weddings.

At the other end of the scale, around 10-15% of America's former welfare recipients are now neither working nor on welfare, according to surveys by the Urban Institute. Although some of them are able to depend on relatives or other forms of support, this group is clearly doing badly. Moreover, a much higher portion of the remaining welfare caseload is made up of people with mental or physical disabilities or other severe limitations, who cannot support their families by working.

The good news is that, having largely won the battle against idleness and dependency, America is now in a much better position to attack poverty head on. But it will not succeed by simply ratcheting up the states' work requirements, as Congress did earlier this year. Instead, America must build on the past decade's accomplishments by tackling three important challenges.

The first is to find new ways to help the children of those who are mildly disabled, emotionally disturbed, mentally slow or addicted to drugs or alcohol. With everyone else working, people with these traits comprise a growing share of those who now turn up at welfare offices. That they tend to make lousy workers is not the biggest worry; their limited ability to raise children is far more troubling. Mark Courtney, who heads a University of Chicago team that has collected data on Milwaukee's welfare system, says that many new applicants for welfare in that city face "formidable barriers to employment". Nearly two-thirds of them had also been looked at by a child-service agency on suspicion of abuse or neglect.

Dealing with these applicants is far more complicated than simply urging them to look for a job. Some are eligible for disability benefits, which remain an entitlement under Social Security Insurance (SSI). Jerry Stepaniak of Maximus—a firm that handles many social services for Milwaukee County—says that his outfit has lined up a network of doctors and lawyers who know the SSI rules inside out, and have become pretty good at judging which of his clients are eligible. The trouble, he says, is that many of those with severe limitations are unable to qualify for disability benefits. And helping them through the mechanism of welfare-to-work is far from ideal.

America's second challenge, now that so many former welfare mothers have ended up in low-paying jobs, is to raise the incomes of the working poor. That means giving them skills. The earnings boost that women have achieved after leaving welfare, says Mr Grogger, tends to flatten after just a few years, as the pay gains that stem from better work habits level off. Without formal education or valuable skills, it is hard to lift incomes much further.

That is why America needs to treat welfare reform as a part of workforce development, says Jennifer Noyes, at the University of Wisconsin-Madison's Institute for Research on Poverty. The trouble, she says, is that the federal government runs lots of other programmes for low-income people, such as schemes giving money for job-training, but each of these is set up to serve a specific set of clients under rigid rules. It would be far better, she says, if states could combine these funds more flexibly for job-training, as they were allowed to do with welfare. That would not only help the working poor, but benefit the economy.

Since American businessmen badly need skilled employees, the government's inability to help more low-income workers gain those skills is a clear failure. One example from Milwaukee illustrates the problem. Many of the region's industrial and building firms complain that it is hard to find competent welders. Yet Mr Stepaniak says he is not allowed to use federal training money to teach people how to weld.

If America really wants to make a lasting dent in poverty, however, its third challenge is to change the odds that young women will end up on welfare. Mr Grogger points out that only half of America's reduction in welfare caseloads stemmed from women leaving the rolls; the other half occurred because fewer women entered the welfare system.

The incentives that are now in place should help to keep that entry rate down. But anything that can cajole or entice more young women into staying in school and delaying pregnancy improves their chances of never going on welfare (and, of course, of earning much more than the current generation of working single mums). Boosting the incomes of poor men, and ensuring that single mothers receive more

child support, would also help, by reducing their children's need for government aid.

To meet these challenges, America will need to rediscover some of the bipartisan pragmatism that prompted Mr Clinton to buck his left-wing critics and sign a controversial Republican law ten years ago. Conservatives now seem too preoccupied with tougher work rules and promoting marriage to think seriously about the next round of anti-poverty reforms. And many on the left are resisting good ideas about school vouchers and job-training with the same sort of scare tactics that they used against welfare reform a decade ago. Those former welfare mothers are now doing their bit in the workplace. But it is time for America's politicians to get out of the wagon and help pull.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Electricity supply

More heat than light

Jul 27th 2006 | NEW YORK
From The Economist print edition

AP

A plague of power blackouts raises doubts about the national grid

IT IS not just temperature records that are being smashed by the nationwide heat wave; significant bits of America's electricity power-supply system are breaking too. Across the country, hundreds of thousands of people are being united in an air-conditioner-less, candlelit sweat. So far, there has been no repeat of the blackout in 2003 that left some 50m people in the dark in the north-east (including parts of Canada), at an estimated cost of $10 billion, but no one is confident there won't be.

In Queens, several thousand New Yorkers have been without power for ten days. At one stage, 100,000 people were blacked out. Good humour soon turned to fury at the ineptitude of the local utility, Consolidated Edison. Con Ed first tried to downplay the crisis by saying that only 2,500 customers were without power, prompting accusations from local politicians that the firm had deliberately misled the public. (This may have been innocent: by "customer", Con Ed means "meter", so one customer could be a building with 1,000 apartments or a house with one person.)

Demands for compensation are growing, and a class-action lawsuit is expected. Curiously, Mayor Michael Bloomberg has defended the firm and its boss. The blackout started when several feeder lines, which take electricity to the local neighbourhood from the main power lines, suddenly failed. No one yet knows why.

Over in St Louis, Missouri, at one point last weekend, over 1m people were without electricity. This power cut was caused by freakishly severe thunderstorms, which brought down trees. An investigation into a four-day blackout in 2004 blamed the local utility, Ameren, for skimping on its tree-cutting budget. Although it has increased its spending by 27%, many trees remain untrimmed, and staff have been laid off too, leaving maintenance scrappy.

Meanwhile in California, where occasional blackouts have long been a fact of life, over 1.5m people have suffered sporadic power cuts during some of the hottest days of the year. On July 24th, a power failure even briefly knocked out the fashionable online community MySpace, which is based in Los Angeles.

It is tempting to draw a simple connection between the record temperatures and the record demand for electricity—on July 18th, America consumed more electricity in a single day than ever before—and conclude that the country's grid is unable to cope. In fact, the timing of these three incidents may be a

coincidence, and in New York and St Louis they may have had nothing to do with the heat or surging demand.

California is different. The state's powerful NIMBY tendency has long ensured that it is undersupplied with electricity; and a botched deregulation, exacerbated by the antics of Enron, played a huge part in the downfall of Governor Gray Davis in 2003. Back then, as temperatures soared, controlled local power cuts were used to stop the whole system failing. The present governor, Arnold Schwarzenegger, has ordered state agencies to reduce electricity use by 25% by turning off non-essential equipment. The Gubernator has made some progress with the state's energy problems, piloting a "smart-meter" scheme in northern California that could help control demand during supply crunches and may become a model for the nation.

Indeed, one of the ironies of this week's power failures is that America is at last starting to grapple with the most entrenched problems in its electricity system. After the 2003 blackout, a joint American-Canadian taskforce delivered a withering 228-page report highlighting the failings of the utilities—which, among other things, had not been regularly monitoring the condition of transmission lines.

Each of the taskforce's 46 recommendations has been implemented, or soon will be. On July 20th, the North American Electric Reliability Council (NERC), a nationwide industry self-regulatory body, took on new powers under the 2005 Energy Policy Act. NERC will now be responsible for developing and enforcing mandatory reliability standards, and can impose fines on utilities that fail to come up to scratch.

How effective this will be, only time will tell. Mr Bloomberg, for one, thinks New Yorkers will just have to get used to power cuts. Expect a boom in sales of home electricity generators.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Democrats

Hillary's American dream

Jul 27th 2006 | WASHINGTON, DC
From The Economist print edition

Making globalisation less scary with cushions and ladders

IF YOU say something no one could disagree with, you are probably wasting carbon dioxide. Why then, did Hillary Clinton bother to reveal this week that she is for "performance-based governing, not photo-ops; hope and fairness, not fear and favouritism"? Because she is a politician, obviously. But also because the Democrats have been trying to sound constructive this week, giving Bush-bashing a rest and floating a fleet of new policy ideas. Mrs Clinton's speech to the Democratic Leadership Council's "national conversation" on July 24th in Denver, Colorado, included hardly any direct attacks on Republicans—only the innuendo that the president favours nasty things like fear and photo-opportunities.

But the speech had substance, too. The DLC recently produced a book on security policy, arguing, roughly speaking, that Islamist terrorism is as big a threat as George Bush says it is, but needs to be fought more intelligently. This week came the domestic-policy sequel: "The American Dream Initiative". The promise of America, said Mrs Clinton, is that if you work hard, you and your children can succeed. But the middle class is squeezed between sluggish pay rises and the soaring costs of health care, college and petrol.

Globalisation, although it makes the world richer, causes economic insecurity. Workers worldwide are worried that someone, somewhere can do their job for less. Americans, despite low unemployment, are especially nervous because losing their job can mean losing their family's health insurance. This is one reason why the Democratic Party's core supporters are reflexively hostile to free trade.

Mrs Clinton and the DLC represent the party's centrist wing: tough on national defence, liberal (in the European sense) on trade and distrusted by the left. "The American Dream Initiative" is an attempt to make globalisation sound less scary by supplying cushions and ladders. The cushions include more tax breaks for home-ownership, a free $500 bond for all new babies (an idea copied from Britain) and a subsidy for retirement savings. Small employers burdened with health-care costs would be able to use a nationwide "purchasing pool" for insurance. The ladders include more subsidies for college and a proposal for longer school hours.

All this will cost money. Mrs Clinton promised to find savings by curbing tax-breaks for rich businesses and axing 100,000 unnecessary consultants, though she wisely refrained from naming any potential victims besides Halliburton. At the same time, she promised to restore the fiscal discipline that has slipped so dangerously under Mr Bush. Democrats, she said, would restore the "pay-as-you-go" budget rules that, until 2002, obliged Congress to match any spending increase with a cut elsewhere or a tax rise.

The next day, in Washington, DC, another group of centrist Democrats called the Hamilton Project offered a complementary set of proposals. One gem: a young wonk named Austan Goolsbee suggested that 40% of American taxpayers should be exempted from filling in their own tax returns because the Internal Revenue Service already knows what they earn, having demanded records from their employers and banks. This, he said, would save $44 billion in compliance costs over ten years. It would be good for family values, he argued, since people would be able to spend 225m more hours with their loved ones instead of wrestling with incomprehensible forms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Global warming

Alaska, ho!

Jul 27th 2006 | AUSTIN
From The Economist print edition

Is this month's unbearable heat a coincidence?

HOT as it is in much of America just now, many atmospheric experts predict that the weather will get worse. Global warming will jack up temperatures and change precipitation patterns, while baskers in beach-front properties will feel the lash of higher seas and possibly even fiercer hurricanes.

Most scientists agree that the subtropical areas, such as south-western America, will get hotter and drier. The government's 2000 National Assessment (much criticised by conservatives) projected that temperatures in America would rise by up to 5° Celsius (9° Fahrenheit) by 2100, with a sharp increase in the minimum winter temperature along the north-east coast. Fresh data will come next January, when the Intergovernmental Panel on Climate Change reports on the regional implications of global warming.

Precipitation is harder to predict than temperature, and no one quite knows what will happen to the periodic El Niño phenomenon in the Pacific Ocean. But scientists certainly expect more droughts and flooding in America. In sum, "Extremes of the hydrologic cycle will become more extreme," according to Jim Hansen, a NASA scientist. That means more severe storms, as well as forest fires brought on by dry conditions.

Already such patterns are evident. Massachusetts was drenched in May (and Washington, DC, got soaked in June). Seattle had 27 straight days of rain this winter. The first half of this year was the hottest ever recorded in America. It is, of course, impossible to attribute any specific event to global warming, but scientists say the weird weather is consistent with what the models predict.

If all these weather forecasts come true, where will be the best place to live? Probably not fast-growing south-western cities such as Phoenix or Las Vegas. With few trees and plants to cool things down through evaporation, and with heat pumping out of buildings and cars (what is called the "urban heat island effect"), these cities may roast. Up in the mountains, skiers too will have a tough time of it, as snowpacks melt.

For those who like rain, Canada may do nicely. Most models show Mexico getting drier and Canada wetter in the future, according to Isaac Held, a researcher with the National Oceanic and Atmospheric Administration. By extension, northern parts of the United States will generally get wetter, and southern parts generally drier. The Pacific north-west may not be too bad. Summer temperatures west of the Cascades will rise by up to 1.7° C, as against up to 2.2°C for areas east of the mountains, predicts Clifford Mass of the University of Washington. Seattle may get cloudier in the spring and early summer. That is a bright spot of sorts, on an otherwise unhappy canvas.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Oil and gas in Oklahoma

It's an ill wind

Jul 27th 2006 | TULSA
From The Economist print edition

Rising oil prices bring a revival of hopes

EVER since oil was discovered in Red Fork, near Tulsa, in 1901, refineries have formed a proud part of the city's skyline. But the peak of the oil production that turned cowboys into millionaires, and a dusty desert town into a place almost as cosmopolitan as New York, occurred almost 80 years ago. In 1927, Oklahoma produced 278m barrels of crude oil. In contrast, last year, the state produced only 60.7m barrels—the lowest figure since 1912.

The last boom in the roller-coaster that is the oil industry came in 1981, and six years later the bust was definitive. Between 1981 and 1995, eight refineries in Oklahoma closed and half the industry's workers left. Overnight, oilmen with mansions and private airstrips became paupers living in mobile homes. Since 1984, oil production has dropped every year.

The Oklahoma oilfields are considered mature in any case. Drillers have to go down deeper and deeper to discover more oil; sinking a well in Oklahoma can cost over $1m. Yet oil is still a significant employer. About 60,000 people are engaged in extracting it, with another 180,000 employed indirectly by the oil and natural gas industry. These include "roughnecks" (unskilled workers on a rig or well), engineers, concrete workers and bulldozer drivers.

Now that prices for oil and gas are solidly high, the industry is starting to revive. In 2005 another 5,200 jobs were added in the petroleum industry, mostly due to more exploration for oil and, above all, natural gas. Last year more than 5,000 intents to drill were filed with the Oklahoma Corporation Commission, the highest number for a decade. The commission expects still more this year. However, instead of oil, about 80% of the drilling rigs in Oklahoma are searching for natural gas.

Oil prospecting may be sexier, but in Oklahoma's history natural gas has proved a steadier bet. Primary production shifted to gas as early as 1963, when oil production was still more than 500,000 barrels a day. According to the Oklahoma Geological Survey, from 1971 until 2001 about 47,000 oil wells were plugged and abandoned. Only about 11,000 gas wells suffered the same fate. Since 1950, producers have extracted about $117 billion in natural gas compared with $87 billion in oil.

In 2000, sales of natural gas exceeded oil for the first time. Whereas additions to the state's oil reserves come almost entirely from better recovery on old fields, gas keeps being found in new places. Surveys suggest Oklahoma may have at least four times as much undiscovered, recoverable gas as proven reserves. To highlight the economic potential of this, the University of Oklahoma began offering a master's degree in natural-gas engineering and management six years ago. It remains the only degree of its kind in the world.

Many hopes, however, still rest on oil and a rising price. A $2.1 billion proposed oil pipeline from Canada to Illinois could be extended to refineries in Ponca City and Cushing, "The Pipeline Crossroads of the World". In May a measure was passed by the Oklahoma legislature to halve the length of time, currently ten years, needed to get a permit to operate a refinery. Similar federal legislation is pending in Washington. No new refineries have been built in the United States for 30 years.

Subsidiary businesses, too, are starting to gear up again. Iron Designs, a company known for light structural steel fabrication, changed its name to Tulsa Steel Services this year and will now build oil derricks, air-cooled heat exchangers and skid platforms. During the desperate last two decades, ghost fields sat crammed with rusting oil equipment that was eventually bought by China. Now Oklahoma's oilmen are regretting they let it go.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Urban revival

Never mind the quality, see the length

Jul 27th 2006 | OKLAHOMA CITY
From The Economist print edition

New hope, and the longest stretch of bronze artwork in the world

"THIS was horrible," says an Oklahoma City water-taxi driver, as his craft glides past neat red-brick buildings that now house Earl's Rib Palace and the Marble Slab Creamery. The area used to be filled with burnt-out warehouses. Now a seven-year-old canal winds through it, and breweries and burger joints—even the odd *latte* shop—are starting to spill out along the waterway.

It is not exactly Venice. But 11 years after the bombing of the federal building at its heart, once-drab Oklahoma City is mounting a comeback, fuelled partly by the oil and gas boom. "There's more money in this town than we knew," says the mayor, Mick Cornett. Cities across the heartland are pumping resources into their downtowns, but Oklahoma's effort seems more pronounced than most. There is even a new river, the recently christened "Oklahoma River", which runs through seven miles of a previously dry creek and has regattas.

At the heart of the revival is the canal area, called Bricktown. There is a ballpark for a minor-league baseball team, and canalside condos are on the way. So are more hotels, which are needed as the city's convention business expands. Strikingly for a staunchly Republican state, the Bricktown revival was financed by tax dollars—a one-cent sales tax approved by voters in 1993. In five and a half years it raised over $300m.

Last year, another city's tragedy further enhanced Oklahoma's fortunes. When the New Orleans Hornets, a basketball team, had to leave their flooded arena, they picked Oklahoma City. And the city—which had been trying to woo a major-league team for years—responded ecstatically. The Hornets are expected to return to New Orleans after next season, but Oklahoma fans have made their point. "Now major-league commissioners are calling me instead of me going to them," says Mr Cornett. Indeed, a group of Oklahoma City businessmen has just bought Seattle's basketball team for $350m.

The party will continue at the state's 2007 centennial, and plans are elaborate. Gargantuan bronze sculptures of horses, wagons and riders are appearing along the canal. These commemorate the 1889 Oklahoma land-rush, when the federal government gave out land on a first-come, first-served basis, and pioneers raced off to the sound of a cavalry bugle. Eventually the project will rank as the longest stretch of bronze artwork in the world. "That will be a let's-get-off-the-interstate-and-look-at-that venue, in the same way the St Louis arch has been," says Mr Cornett.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Peru's new president

Second time sober?

Jul 27th 2006 | LIMA
From The Economist print edition

Alan García had a catastrophic presidency in the 1980s. He now has a chance to redeem himself

AFP

THE last time he was sworn in as president, in 1985, Alan García spelt disaster for Peru. His government unilaterally cut payments of its foreign debt, froze prices and interest rates while raising wages and ended its five-year term with hyperinflation and an upsurge in violence by left-wing guerrillas. The International Monetary Fund (IMF) denounced his policies as reckless. On July 28th Mr García, now 57, will take the oath of office again after winning a close election against a more populist rival in June. He claims to be a wiser man. After the taming of the guerrillas, and four years of economic growth of better than 5%, Peru is in much better shape than he left it. His task now is to preserve these gains while spreading the benefits to the half of the population that lives in poverty. That will not be easy.

Early indications are that Mr García means to join Latin America's club of moderate left-leaning presidents, who fight poverty while pursuing responsible economic policies. His first post-election visit was to Brazil's president, Luiz Inácio Lula da Silva, who until now has done just that. José Antonio García Belaúnde, a career diplomat who is to be foreign minister, says his top priority is a free-trade deal with neighbouring Chile, also governed by the pragmatic left. During the campaign Mr García clashed with Venezuela's Hugo Chávez, who backed his opponent and is shunning his inauguration.

The new finance minister will be Luis Carranza, one of Peru's most orthodox economists. A former banker and deputy finance minister, Mr Carranza is likely to pursue the fiscal targets established by the outgoing government of Alejandro Toledo: a non-financial public-sector deficit of no more than 1% of GDP and real growth in spending of 3% a year or less. That will help contain inflation, which was less than 1.5% in the first half of 2006. The IMF's western-hemisphere director, Anoop Singh, praised Mr García's commitment to a "prudent economic policy". Other multilateral lenders, such as the World Bank and Inter-American Development Bank, are promising billions of dollars in fresh aid.

While continuing the economic policies of his unpopular predecessor, Mr García is trying to appear less self-indulgent. He has promised a cull of government offices, including the first lady's, and cuts in salaries of top officials, starting with his own, which will be reduced from $13,000 a month to $5,000 (Mr Toledo notoriously raised his pay upon taking office). He will dispense with the traditional inauguration ball. In all, he proposes to save $400m within six months, money that will be spent on increasing the number of water connections in Lima, the capital, and pulling the Andean region out of poverty. That

ought to help Mr García's party, the American Popular Revolutionary Alliance (APRA), in local elections in November, which are already being touted as an early referendum on his government. A quarter of Lima's 8m people are without water; in the impoverished highlands, Mr García was soundly beaten by his rival, Ollanta Humala, in last month's election.

Yet Mr García has had little to say about the policies required to secure growth and reduce poverty over the long term. Judging by exam results Peru's education system is among the worst in the Spanish-speaking world, but he has proposed no plan to reform it. The health service is little better, but Mr García has not dared to defy health workers, an important part of APRA's constituency. His supporters rightly describe the tax code as a "Frankenstein creation", but have suggested no solution. Mr García must soon decide whether to negotiate a tax increase with many big mining companies, which are earning windfall profits but are exempt from a 3% royalty under agreements signed in the 1990s.

Mr García is timid in part because his political position is shaky. A recent poll puts his approval rating at 50%, low for an incoming president. APRA has just 36 of the 120 seats in the unicameral legislature, compared with 42 for Mr Humala's Union for Peru. Mr Humala has promised fierce opposition and continued agitation for nationalisation of oil and gas, though his position will be weakened by an apparent split within his party. Mr García will respond by giving APRA a limited role in the government, leaving space for other parties (he has promised that half the cabinet jobs will go to women). Jorge del Castillo, expected to be the president's chief of staff, is a master conciliator. If the government does well in local elections, Mr García's policies may become bolder.

To an uncomfortable degree, his success depends on events outside his control. Peru owes much of its economic growth to buoyant exports—$20 billion in the year to June—which in turn are reliant on high prices for minerals, especially gold and copper, and on trade concessions from the United States. Both are vulnerable. Any downturn in commodity prices would drag down GDP growth and put the government's fiscal targets at risk. Peru's exports to the United States, a quarter of the total, are hostage to the American Congress, which is deciding whether to ratify a free-trade agreement signed by both countries (and ratified by Peru). If it does not do so by the end of 2006 duty-free entry for some 6,000 Peruvian products could expire. American importers may already be looking for alternative suppliers. Exports to the United States rose 12% in the first half of this year, well below the 58% gain during the same period last year. A sag in exports and the economy would put Mr García's new sobriety to the test.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Demonstrations in Mexico

Learning by not doing

Jul 27th 2006 | OAXACA
From The Economist print edition

A teachers' strike in a poor state has wider implications

THE idyllic central plaza of Oaxaca, a touristy city known for its art galleries, is today crowded with hammer-and-sickle banners and portraits of Stalin. They were put there by school teachers, who have been striking for more than two months to demand better benefits and pay (most make no more than $600 a month), and by their radical left-wing allies. Such strikes are not unusual, but these have acquired a wider political significance. The teachers are demanding the resignation of Ulises Ruiz, the governor of Oaxaca state. If the dispute deepens over the results of Mexico's presidential elections on July 2nd, the teachers could be exemplars of the unrest that might follow.

On June 14th police invaded the plaza and surrounding blocks before dawn, firing tear gas in a failed attempt to evict the demonstrators. Human-rights groups say they entered without warning and attacked children and old people camped out in the area. Mr Ruiz reshuffled his cabinet, bringing in a new secretary-general (the top post) and new ministers for public security and civil protection, but he refuses to go himself. The demonstrators claim that his victory in elections two years ago was fraudulent and that he has governed as an authoritarian ever since.

Oaxaca has long been a bastion of the Institutional Revolutionary Party (PRI), which ruled Mexico for seven decades until 2000 and to which Mr Ruiz belongs. In this month's federal elections, however, the PRI came second in Oaxaca state to the Party of the Democratic Revolution (PRD), which took the biggest share of the vote for president and in the legislature. The PRD's presidential candidate, Andrés Manuel López Obrador, lost the national election by a scant 244,000 votes, 0.58% of the total, to Felipe Calderón of the centre-right National Action Party. This week Mr López Obrador escalated his legal challenge to the result by filing a criminal complaint against the election authority. He plans to mount a civil disobedience campaign to back his claim to the presidency.

Hector Pablo Ramírez Puga Leyva, head of the PRI in Oaxaca, claims that the teachers are in league with the apparent loser. "We see the hand of López Obrador clearly behind the demonstrations," he says. Most of the demonstrators admit to sympathising with Mr López Obrador, but both they and the PRD deny any formal link between them. The local head of the PRD has called for federal intervention, but the government is reluctant to step in to what it deems a purely local matter.

That leaves Oaxaca in limbo. Eliador Díaz Escarraga, the new secretary-general, wants negotiations, but the demonstrators are unwilling to talk to an administration led by Mr Ruiz. Although other parts of Oaxaca city and rural areas of the state are largely unaffected by the crisis, the government's attention is consumed by it. A peaceful social movement has effectively brought government to a halt. Mr López Obrador may not be involved, but he is surely watching closely.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD THE AMERICAS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Mercosur's summit

Downhill from here

Jul 27th 2006
From The Economist print edition

The expansion of South America's trade block is perverting its purpose

SUMMITS among the leaders of Mercosur, a South American trade group, are usually dull affairs, devoted to worthy rhetoric about economic integration and to small steps toward achieving it. But the July 20th-21st meeting in Córdoba, Argentina was more colourful than most, and that is nothing to celebrate. Venezuela's populist president, Hugo Chávez, sealed his country's membership in the group alongside the founding four: Brazil, Argentina, Uruguay and Paraguay. Cuba's 79-year-old dictator, Fidel Castro, signed a modest trade accord and delivered a rousing speech, quieting rumours that he is too infirm to govern. A "social Mercosur" will "change the world", he told a throng of thousands.

Venezuela's membership expands Mercosur to 250m people and $1.1 trillion of GDP. But it drags the group further from its original intent to implant European-style integration in South America. The summit made a few gestures in this direction, such as pushing forward a $100m fund that could funnel Venezuelan petrodollars to the group's smallest members, Paraguay and Uruguay. But that cannot compensate for the strain of adding new members that have disparate interests and, in some cases, are hostile toward parts of the rest of the world. Argentina and Brazil invited Bolivia, governed by the fiercely nationalistic Evo Morales, to join the group. His voice would strengthen the stridently anti-American chorus led by Mr Chávez. Mercosur is becoming an anti-imperialist "political block", says Pedro da Motta Veiga, a trade consultant in Rio de Janeiro. It may now split between a pragmatic camp, led by Brazil, and Mr Chávez's ideological one.

Such prickliness will be especially awkward after the apparent collapse of multilateral trade negotiations, which is likely to encourage trade accords within and between regions (see article). A deal between Mercosur and the United States, already unlikely, now looks even more so. The multilateral mess could sharpen the European Union's appetite for a deal with Mercosur, but the failure to agree on reducing farm subsidies blunts the hopes of achieving one.

Mr Chávez followed up his summit performance by embarking on a two-week world tour, which includes visits to Belarus, a European dictatorship, and to Iran, a nemesis of the United States. In Russia he is expected to sign a deal for up to $3 billion to buy weaponry, including military aircraft. Back in Córdoba Uruguay sought permission from Mercosur to sign separate trade agreements, principally with the United States. If that is not forthcoming, Uruguay could leave the group.Mercosur's membership would then shrink back to four.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Japan's succession

Abe's opportunity

Jul 27th 2006 | TOKYO
From The Economist print edition

Reuters

A post-Koizumi world comes into focus as the list of rivals shortens

WITH his only viable potential challenger suddenly dropping out of contention late last week, Shinzo Abe, the chief cabinet secretary, looks all but certain to lead his party, and thus the country, from September. That is when Japan's prime minister, Junichiro Koizumi, retires from front-line politics.

For the past few months, Yasuo Fukuda, a Liberal Democratic Party (LDP) stalwart, the son of a late prime minister and a former chief cabinet secretary himself, had dropped hints about contesting the LDP's presidential election on September 20th. Mr Fukuda judges Mr Abe a policy lightweight, too trusting in small government. He decries the hawkishness in Japan's international relations that Mr Koizumi has propounded and Mr Abe has amplified, especially the visits that both men make to the Yasukuni shrine (above), which enshrines alongside Japan's fallen servicemen 14 wartime figures who were executed for crimes against humanity.

Mr Fukuda, though, has his own shortcomings. At 70, he is not sprightly and, remarkably for a politician, is diffident in public. Still, he had become the focus for the party's disaffected: those in despair at Japan's strained ties with its neighbours, particularly China and South Korea; party veterans alarmed at being frozen out by Mr Abe (who at 51 is from a younger generation), just as they were by Mr Koizumi; and other assorted enemies of the prime minister, Mr Abe's undeclared mentor.

Yet as hopes in Mr Fukuda grew, so did his prevarication. The issue of Yasukuni, which he himself had highlighted, might, Mr Fukuda seems finally to have concluded, give Japan's neighbours too great a sense of a government divided. Mr Fukuda also doubted, says Takao Toshikawa of *Tokyo Insideline*, a newsletter, whether he had the gumption for the job.

In the end, support for Mr Fukuda ebbed, even within in his own faction. North Korea's provocation by loosing off ballistic missiles on July 5th did no favours for Mr Fukuda's doveish line on foreign policy, says Koichi Kato, a Fukuda supporter who himself led a (disastrous) challenge to the party establishment back in 2000. On July 21st, Mr Fukuda withdrew the challenge that he had not properly thrown down, summing up a political career that never quite lived up to its promise.

In theory, other candidates for the LDP presidency remain, notably Taro Aso, the foreign minister, and

Sadakazu Tanigaki, the finance minister. Neither is seriously in contention. So speculation turns to the kind of administration Mr Abe will lead. He has neither Mr Koizumi's force of character, nor his iconoclasm. His government is likely to be a more inclusive one, with nods to the party's older barons, as well as room found for bright young things.

The style of Mr Abe's government will differ from Mr Koizumi's, but its substance may not. For if his grasp of policy is weak, Mr Abe is surrounding himself with advisers who favour smaller government and market-based reforms. In particular, his most vigorous supporter is Hidenao Nakagawa, who exercises immense power as head of the LDP's policy-research council. Along with Heizo Takenaka, the interior minister, Mr Nakagawa has been the architect of Mr Koizumi's domestic policy. Mr Nakagawa will probably keep his post, even if the future of Mr Takenaka, unpopular even among reformers and with no real political base of his own, is less certain.

Whatever the make-up of the next government, a recent signal from the political establishment suggests a new commitment to bring the state's finances under control. After years of spending through the country's long slump, the ratio of gross government debt to GDP stands at 170%, while the budget deficit, though well down from its peak, is over 6% of GDP.

On July 7th a fiscal plan for the next decade was agreed not just by Mr Koizumi's government but by the ruling party itself. By promising to get the budget back in surplus on a "primary" basis (ie, excluding interest payments) by 2011, the blueprint acknowledged that by then an annual ¥16.5 trillion ($140 billion) would have to be found, for which spending cuts would make up 70-80%, with tax increases making up the rest. Remarkably, specific cuts were targeted in government programmes. Spending on public works, which has already fallen for six years, will be squeezed further. The government will also be shrunk.

What is more, the plan committed Japan for the first time to a budget surplus even after interest payments, by around 2015; after that, the debt-GDP ratio should start falling. These plans call for a fundamental debate about tax reform, beyond the narrow perennial issue of when to raise the consumption tax, and by how much. For now, a recovering economy is throwing out unexpectedly strong tax revenues, and some of the worst fears about the need for a sharp hike in the consumption tax are fading. Still, the blueprint suggests that sound public finances will be the next government's chief preoccupation.

As for foreign policy, the hawkish Mr Abe may yet produce surprises, thanks perhaps to the late Showa emperor, known before his death as Hirohito. Last week the old diaries of a former head of the Imperial Household Agency were leaked. In them, private conversations with the emperor are recorded, in which he purportedly affirmed that he had stopped visiting Yasukuni because of the war criminals enshrined there in 1978.

The leak gives Mr Abe a chance to draw Yasukuni's sting. On August 15th, the anniversary of Japan's surrender and around the time he is expected formally to announce his candidacy, he usually visits Yasukuni. Should he decline to go this year, claiming deference to the late emperor, he will send a powerful conciliatory message to Japan's neighbours—and to those who oppose him in his party. Should he visit, though, Mr Abe will have proved himself even more cussed than Mr Koizumi.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

India

The railway man

Jul 27th 2006 | DELHI
From The Economist print edition

An unlikely figure on the big stage

LALOO PRASAD YADAV, India's railway minister, was known during the 15 years that he and his wife, Rabri Devi, were successive chief ministers of the state of Bihar, for his earthy realism and rustic lifestyle, which included keeping cows in the garden of his official residence. He was also famous for failing to improve the lot of one of India's poorest and most lawless states, and for a raft of corruption charges that put him in jail five times. In May 2004, he was made railways minister in Delhi. He was expected to do little more than follow his predecessors' preoccupation with improving railway services and investments in his home state.

But Mr Yadav is a wily and disarming politician and has confounded his critics by becoming one of the country's most successful railway ministers. And he has not forgotten his cows. "If you don't milk your cow fully it falls sick, and if the cow falls sick the farmer goes sick," he says to explain his solutions to the problems of the world's second largest railway network. With more than 1.4m employees and 63,000km (40,000 miles) of track, the railways still help bind India together, but they have suffered from deteriorating finances and lack the funds for future investment.

AFP

Ever upwards from Bihar

Rather than raise fares as he was urged to do by various reports and pundits, Mr Yadav has opted for volume-boosting and cost-cutting measures that have made diehard officials in the stuffy Railways Board shudder. He increased load limits for the system's 220,000 freight wagons by 11%, legalising something that was already happening. He has boosted the railways' earnings by 72 billion rupees ($1.6 billion) in the current year. Of this, 60 billion rupees came from speeding up turn-round times. These measures have added some 24% to freight revenues—and freight provides 70% of the railways' earnings.

Mr Yadav has also speeded up train inspections, varied a train's number of passenger coaches according to demand (they used to have standard lengths), and introduced an upgrade system to fill vacant upper-class seats (a well-known source of bribes). Companies are being allowed to run their own container trains. The first tranche of an 11,000km freight corridor linking India's biggest cities has recently been approved.

But why has Mr Yadav tried so unexpectedly hard? Simple. As he openly admits, he wants to be prime minister. His corruption charges might appear to be something of a stumbling block, but he is more concerned that his "credibility has improved". It might seem a very long shot. But, given the fractious nature of India's coalition politics, the low-caste populist from India's roughest state cannot be ruled out as a compromise candidate if things get complicated after a future general election.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Mumbai bombing

The usual suspects

Jul 27th 2006 | DELHI
From The Economist print edition

India debates how to punish Pakistan for the slaughter

MANY in India were swift to blame the co-ordinated bombing of Mumbai's commuter railway on July 11th on Pakistan. The police say their investigation into the onslaught—in which 179 people were killed and more than 500 injured—has indeed uncovered evidence of indirect Pakistani involvement. There has been much discussion about how to make Pakistan "pay" for this. But whatever the price demanded of Pakistan, it might prove too costly for India.

In the two weeks after the bombing, the police detained several hundred people for questioning and formally arrested six of them. All, they say, were linked with a group called the Students' Islamic Movement of India (SIMI), which was banned in 2001. The police are now claiming a "breakthrough" in one arrest, of Tanvir Ahmed Ansari, a Mumbai-based practitioner of traditional medicine. They say that he had been recruited by Lashkar-e-Taiba, a Pakistan-based group fighting India's rule of part of the divided territory of Kashmir. The group is blamed for many acts of terrorism in India. Last year, Mr Ansari is said to have slipped illegally into Pakistan through Iran, and spent six weeks at a Lashkar training camp near Muzaffarabad, in the Pakistani part of Kashmir.

AFP

Mumbai's tears give way to anger

After such an atrocity, the police are naturally enough under huge pressure to show results. So such details, emerging in off-the-record briefings, may well be embroidered. But the substance of the allegation is widely accepted in India. The bottom line, as the prime minister, Manmohan Singh, has said, is that "terrorist modules are instigated, inspired and supported by elements across the border."

This is not, however, the same as accusing Pakistan's government of directly ordering the bombing, which has hardly served its interests. But most senior Indian officials believe that, because of perceived political advantages at home, Pervez Musharraf, Pakistan's president, has deliberately chosen not to suppress terrorist groups. Lashkar itself is, in theory, banned in Pakistan, but has reappeared under the name Jamaat-ud-Dawa.

India's anger with Pakistan, however, is hard to vent in more than symbolic gestures. It has postponed talks, due this month, between the two countries' senior diplomats to review the progress of a "composite dialogue" on a range of issues, including Kashmir, that started in 2004 in order to build confidence and lead to peace. It has demanded, again, that Pakistan ban Jamaat-ud-Dawa, and hand over Dawood Ibrahim, a Mumbai gangster with terrorist links, and Syed Salahuddin, who heads another militant group, Hizb-ul Mujahideen. Pakistan denies harbouring the former and says the latter is a legitimate politician. It shrugs off charges of involvement in the bombing and chides India for playing "the blame game".

This leaves India's government punching at shadows. Some members of the press and the political opposition call for revenge—as they did after an attack on India's parliament in December 2001, which brought the two countries close to war. But the government does not want to throw away the progress made in the three-year peace process with Pakistan. It probably feels it has little choice but to revive it—perhaps as early as next week, when both countries' top diplomats will attend a regional meeting in Bangladesh.

Each outrage, however, makes it harder for India to make concessions on the central dispute, over Kashmir, since that might appear to be bowing to terrorism. Each also reduces whatever faith India still has in General Musharraf as a worthwhile negotiating partner.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

China

We'll jolly well say what we want to

Jul 27th 2006 | BEIJING
From The Economist print edition

Against expectations, China's media are taking free speech seriously

YOU might think that China's media have been having a hard time in recent months: editors sacked, reporters jailed, new curbs announced on what they can report, new clampdowns on the internet. But is it as bad as it sounds? Even as the authorities attempt to tighten controls, the media keep fighting back.

The picture is much more varied than that suggested by Reporters Without Borders, a Paris-based pressure group, in a report this year. It said a government faced with growing social unrest had imposed a news blackout. "The press has been forced into self-censorship, the internet purged and foreign media kept at a distance."

In the last month, however, several media organisations, including some affiliated with the government, have been unusually outspoken in their criticisms of government censorship. Far from subdued, some newspapers and their websites have been airing a lively debate about how far these controls should go.

The loudest protests were heard after it was revealed in late June that a proposed law on public emergencies contained a clause banning the media from issuing any news about such events without government permission. Violators, it said, would be fined. The outcry was remarkable given that the draft law merely states what had been widely understood to be the rule since the Communist Party came to power in 1949. Indeed, the fine of between 50,000 yuan ($6,250) and 100,000 yuan could be considerably offset by the extra revenue earned by an exclusive report on a big story.

Caijing, a fortnightly magazine, quoted one academic on its website as saying that freedom of the press was an offshoot of the constitution's (little observed) guarantee of freedom of speech. Restrictions should therefore be introduced with caution. Another academic reportedly said that giving local governments the power to interpret the rules could turn China into a "police society". *Southern Metropolis News*, a widely read daily, said in an online commentary that delays in releasing news would only encourage rumours. It called for "healthy competition" between the media and the government over information on emergencies.

On July 21st, just such competition forced the authorities in the southern province of Hunan to revise the death toll reported from a storm from 92 to 346. A journalist from the central television network found that officials in the worst affected area had been under-reporting the numbers. Also in the last few days, newspapers in the neighbouring province of Guangdong have been attacking an internal directive, leaked to the press, that requires journalists in the capital, Guangzhou, to apply two days in advance to interview hospital staff about public-health emergencies. On July 12th, a newspaper in the city also published an astonishing article comparing China's political reforms unfavourably with Vietnam's.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Indonesia

The bird flu capital of the world

Jul 27th 2006 | JAKARTA
From The Economist print edition

And set to keep the title

LAST week, Indonesia announced its 43rd human death from bird flu. It has now recorded more fatalities than any other nation, and in stark contrast to all other countries its death toll is climbing regularly. It looks as though things will get worse before they get better.

The Indonesian government claims to be committed to fighting the disease, caused by the H5N1 virus, but it does not seem to want to spend much of its own money doing so. After the international community pledged $900m in grants and slightly more in very soft loans to combat the spread of bird flu globally and to help nations prepare for a possible human flu pandemic, Indonesia put in a request for the full $900m—all of it in grants.

A national bird-flu commission was created in March to co-ordinate the country's response but it has yet to be given a budget. Its chief, meanwhile, has just been given a second full-time job—heading efforts to rebuild the part of Java devastated by an earthquake in May.

Observers say that the available money is being mis-spent, with the focus on humans rather than on animals. The agriculture ministry, for example, is asking for less money for next year than it got this year. This is despite hundreds of thousands of hens dying every month, to say nothing of infected cats, quails, pigs and ducks. Farmers are being compensated at only 2,000 rupiah (21 cents) per bird, well below market price, thereby discouraging them from reporting outbreaks. The country's veterinary surveillance services are inadequate. Pledges to vaccinate hundreds of millions of birds have not been met.

The UN's Food and Agriculture Organisation is starting to establish local disease-control centres to cope with the effects of a virulent mutation, should one occur, but reckons that only one-third of the country will be covered by year's end. A bunch of international do-gooders that is trying to plug some of the gaps is finding it hard to raise money.

In fairness, Indonesia has many priorities to deal with. It is contending with the aftermath of earthquakes, a volcanic eruption and a tsunami—all in the last seven weeks. More than 1,500 children die every day from treatable illnesses such as pneumonia, tuberculosis, dengue fever and malaria. Besides, many Indonesians either do not believe the hype—they point to the SARS threat in 2003 that never materialised—or say that if outsiders are so worried they should pay for the necessary measures.

The UN's bird flu tsar, David Nabarro, is a diplomat. He calls the issues involved "really tricky" and says recrimination achieves little. It will take "many, many months", he thinks, for Indonesia to get on top of bird flu. Keep your fingers crossed.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Macau

The seven-year itch

Jul 27th 2006 | MACAU
From The Economist print edition

Since reverting from Portugal to China in 1999, Macau has boomed. Too much, for the taste of some

THE army of workers operating along what used to be Macau's waterfront is conducting "land reclamation": dumping sand into the water to create more land on which to build ever more casinos, resorts and hotels in the formerly Portuguese playground. Cranes and bulldozers beaver away throughout the territory, building new high-rises. Like most of China's booming conurbations, Macau is paying an environmental price; the air is thick with smog and dust, and the Pearl River has transferred some of its pollution to Macau's seas. But the damage pales when set against the promise of growth, and billboards proudly herald the coming of "the Las Vegas of Asia".

Amid all the buzz, the music from a boat docked at the inner harbour sounds a strange note. The red-robed musicians and their audience are Taoists engaged in a religious ceremony. As the musicians play their instruments, the believers on board burn incense and empty scraps of food into the water as an offering to the gods. The contrast of ancient ritual with feverish modernisation is the story of modern Macau: the story of development transforming a once-sheltered nook.

Macau's stunning economic boom—2004 saw its GDP grow by 28%—has been powered by gambling, tourism and the construction necessary to support such endeavours. Since Stanley Ho, Macau's most famous casino mogul, found his monopoly on the gambling industry broken in 2001, American firms such as Wynn Resorts and Las Vegas Sands Corporation have stepped in to build impressive new facilities. Visitors include rich and powerful Chinese, wishing to indulge in games of chance illegal on the mainland, as well as tourists from nearby countries like South Korea and Singapore.

There has been a price. Construction firms are eager to hire immigrants from Fujian, Guangdong and even Shanghai who are willing to work for lower wages than the local Macanese. The ill-will thus created was evident last May 1st, when locals (quite a few of whom were also illegal immigrants when they first arrived) rioted. They protest that outsiders are finding jobs in the new economy while many middle-aged Macanese remain jobless.

Ethnic tension is growing too. Macau is thoroughly cosmopolitan, with Nepalis, Brazilians and Filipinos working beside Portuguese and Chinese. But the relationship between them and the newly arrived mainlanders is problematic. "The mainland Chinese are rude and look down on us," says a Nepali security guard, a sentiment echoed by many locals. And though the authorities have failed to keep mainlanders out, foreigners who have worked there since long before the handover are finding it hard to bring their families over. "My daughter won't be joining me because it's hard to get a work permit now," says one Filipino, who has worked in Macau for 24 years.

It is not only racial harmony that is under threat. Under Portugal Macau escaped many of the depredations of the Cultural Revolution, and it remains one of the last repositories of traditional Chinese culture. Figurines depicting the god of wealth sit outside most doors, attended by burning sticks of incense. The temples of Tin Hau, Kum Iam and Pak Tai continue to draw the faithful, who take pride in pointing out that their religion has survived both the rule of Portuguese Christians and the handover to atheist China. Such piety, however, sits uncomfortably with the gambling, the neon lights and prostitution that are forever gaining ground.

The old order, at least, is not particularly pleased by the prospect. "It used to be just a sleepy fishing village when I was a child," recalls a middle-aged resident. "We used to pump water up from hand-wells." He sighs. "I have no idea what it's going to look like a year from now."

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Lebanese crisis

Can diplomacy be given a chance?

Jul 27th 2006 | BEIRUT, HAIFA AND RAMALLAH
From The Economist print edition

The first signs that Israel's attack on Hizbullah is losing momentum could give a fillip to the diplomacy now getting under way, but timing is crucial

AFP

A FORTNIGHT after Israel hit back at Hizbullah, in response to the Lebanese Islamist movement's capture of two Israeli soldiers, the bloodshed in Lebanon showed no sign of abating and diplomacy seemed to have little chance of stopping the fighting soon. As the death toll mounted steadily, nobody appeared to be winning, yet nobody had a clear plan to enforce a ceasefire acceptable to all sides. America's secretary of state, Condoleezza Rice, toured the region, ending at a conference in Rome, where the cause of peace barely advanced. The Arabs, and many others, think America is simply giving Israel a bit longer to wipe out Hizbullah.

Israel says its pounding of launch sites and command centres in south and central Lebanon has destroyed a good third or so of the militia's rocketry. But the campaign has not, so far, reduced the rate of Hizbullah missile strikes. Israel says it has killed "some tens" of fighters—27, says Hizbullah—but none more senior than the commander in charge of a section of the Lebanon-Israel border.

Meanwhile, civilians were still taking the brunt of the misery. By some estimates, 800,000-odd Lebanese, in a population of 4m, have been displaced and some 400 killed. Israeli forces continued to bombard Hizbullah strongholds along the southern strip of Lebanon and in southern Beirut, where the country's Shia Muslims, Hizbullah's constituency, predominate. The coastal cities of Tyre and Sidon swelled with perhaps as many as 100,000 refugees, in scenes of devastation, panic and death. Israel's air force went on thumping bridges and roads in its effort to squelch Hizbullah, terrifying—and sometimes killing—civilians in the middle. Lebanon, in the words of its prime minister, Fouad Siniora, was being "cut to pieces".

Israel suffered too, though its death toll has been about nine times smaller than Lebanon's. At least 2,300 missiles and rockets have rained down in the past fortnight. Haifa, Israel's third-biggest city, some 30km (19 miles) south of the border with Lebanon, has been showered with missiles. At least 18 Israeli civilians have been killed. It is the longest sustained assault on its territory that Israel has endured since its war of independence. On July 26th, nine Israeli soldiers were killed in southern Lebanon—Israel's biggest loss in a single day since this campaign began.

This week Israeli ground forces sought out Hizbullah bases in villages near the border. But it has been heavy going against an enemy with a well-built network, replete with bunkers, that hides men and weapons among civilians. Pushing Hizbullah back the 20km to the Litani river, one of Israel's original demands, may now cost too much in time and casualties. Unnamed Israeli officers have been quoted saying it could take another month to stop the rockets. Hassan Nasrallah, Hizbullah's leader, has meanwhile threatened that "if matters develop, we will choose the time when we will move beyond, beyond Haifa." Israel believes Hizbullah has missiles that could reach Tel Aviv, though whether it can launch them is another question.

With all that, the overwhelming public support that the war has enjoyed in Israel so far could start to fade. Criticism of the army's planning and preparation is already emerging. Statements a week ago that it needed 10-14 days to "finish the job" now look optimistic. And while Ehud Olmert, the prime minister, needs a decisive victory to establish his security credentials with the public, it is far from clear what a sufficiently decisive one would look like. Above all, Israel wants to avoid leaving troops in south Lebanon for long, as happened when it went after the previous troublesome tenants, the Palestine Liberation Organisation, in 1978 and 1982.

Diplomatic moves might, therefore, help Israel find a face-saving way out as well as stopping the bloodshed. On her trip this week to the region, Ms Rice refused to push Israel into an unconditional ceasefire as many are demanding, but the pieces of a diplomatic solution may slowly begin to fall into place.

Seeking the minimum

Israel has dropped its demand that Lebanon's army alone do the job of keeping Hizbullah out of south Lebanon, accepting that an international force will be needed. It seems also to have conceded that Hizbullah cannot be disarmed straight away. There are signs that UNIFIL, the discredited UN monitoring force in south Lebanon, will be disbanded soon, to be replaced by a multinational contingent empowered to act rather than just watch. Israel will be encouraged, as part of a ceasefire deal, to give up the Shebaa Farms, a small disputed strip of land that Lebanon claims as its own and that the UN says belongs to Syria's Israeli-occupied Golan Heights.

Clearly, the thinking is that a handover of the Shebaa area and three prisoners in Israeli jails (two Lebanese, one an Israeli Lebanese) is the very least Hizbullah needs to give back the two captured soldiers, agree to a ceasefire and, hardest of all, accept eviction from its home territory.

But Ms Rice's meeting with Arab and European leaders in Rome left more questions than answers. Who would provide the thousands of troops needed to police southern Lebanon (both Britain and the Americans, for instance, feel they already have enough in Iraq)? How long would they stay? Would they be prepared to clash with Hizbullah? Would they feel safe from Israel, which killed four UN peacekeepers in their bunker this week? (An accident, said Israel; "apparently deliberate", said the UN's secretary-general, Kofi Annan.)

What could make Hizbullah—and its large group of Shia Muslim supporters—accept the new restrictions? If it kept its arms, continued to be resupplied by Iran and Syria and could fire its longer-range rockets from new positions farther north, what guarantees of security would Israel get? Some see a chance to settle several disputes at once, by persuading Syria to stop supplying Hizbullah in return for a return of the Golan Heights and a peace deal with Israel. But with Israel in a bellicose mood, it is hard to see that succeeding either.

The most basic question is whether anything can happen fast enough. The first peacekeeping contingents would probably not arrive for a couple of months. Until a ceasefire is agreed, Israel could keep battering Lebanon. By doing so it would risk bolstering Hizbullah's popularity and making it harder for Lebanon's precarious factional government to impose anything on the Shias (see article).

That will affect the wider region too. Both Syria and Iran, Hizbullah's main backers, were relatively restrained in their remarks when the fighting started—a hint that Hizbullah's kidnapping foray really may have been its own initiative rather than, as some read it, an attempt by Iran to distract attention from its nuclear stand-off with the West or to provoke a bigger war. Mahmoud Komati, one of Mr Nasrallah's deputies, seemed to confirm that by saying this week that Hizbullah did not expect Israel's massive response.

But now, as the conflict has escalated and anger across the Arab world with Israel has grown, even the Egyptian and Saudi governments, which started off notably critical of Hizbullah's move, have had to backpedal to a more anti-Israel stance. This week's summit was held in Rome partly because none of America's Arab allies wanted Ms Rice on their soil.

The Palestinians are watching nervously too. With Lebanon in flames, the offensive that Israel launched two weeks previously against militants in Gaza, after they too captured a soldier, has vanished from the headlines. Well over 100 Palestinians, around half of them civilians, have died, and the rest of the strip's inhabitants are still without electricity or water most of the day. Israel has been bombing government buildings and institutions tied to Hamas, the party that runs the Palestinian Authority, and whose fighters are among those holding the soldier hostage. But as in Lebanon, the attack has neither freed the hostage nor stemmed the rain of the Palestinians' home-made Qassam rockets on Israel.

Mahmoud Abbas, the Palestinian president, is keen to separate the Gaza and Lebanon issues. In reality, so is Hamas. For all the fiery rhetoric about being brothers in the struggle, it does not like Hizbullah stealing its (and the Palestinians') top spot as the symbol of Arab resistance, and the Sunnis of Hamas and Shias of Hizbullah are uneasy bedfellows. A solution for Gaza should suit Israel too: it would weaken the Hamas-Hizbullah-Iran-Syria alliance, and give the army a way out of what is turning into another quagmire.

A rumour of Palestinian unity

Mr Abbas, says a senior official close to him, has agreed with the main militant groups that they will halt their rocket attacks and let the soldier go, in return for an Israeli pullout from Gaza and a release of some Palestinian prisoners at a later date, with Egypt playing mediator and guarantor. Hamas and Fatah, Mr Abbas's party, would form a joint government—a proposal that was nearly signed but got shelved just after Israel's incursion began.

That could at least draw Gaza back from the brink and ease the people's suffering. But it would also widen a rift between Hamas's more moderate "inside" leadership and the "outside" one in Damascus, which controls Hamas's armed wing and could thus sabotage any deal. Besides, getting Israel to agree would require more help from the Americans—and they are a little busy right now.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Lebanon's government

So who's running the show?

Jul 27th 2006 | BEIRUT
From The Economist print edition

As Israel tries to destroy Hizbullah, Lebanon's government is floundering

SINCE Israel began trying to squash Hizbullah a fortnight ago, the fragile Lebanese government led by Fouad Siniora has been virtually paralysed. This week, Israel's deputy prime minister, Shimon Peres, said that his country and Lebanon could easily resolve their differences, if only Mr Siniora and his Israeli counterpart, Ehud Olmert, would sit down and sort things out. That is wishful thinking. Mr Siniora has little chance of making peace, in Lebanon or beyond, unless he can bring Hizbullah itself into a negotiation. And so far there is little sign of that happening.

At first, his government responded to the crisis by retreating into an anguished neutrality. When Hizbullah nabbed a pair of Israeli soldiers from across Lebanon's southern border on July 12th, Mr Olmert said he held Mr Siniora's government responsible. The Lebanese prime minister's spokesman replied that, as every Lebanese knew, Hizbullah's military wing—and the land it controls in the south—is beyond the government's writ.

EPA

Siniora and an American señorita

Since Israeli forces began hitting swathes of Lebanon, Mr Siniora's cabinet—at the best of times a tricky amalgam of disparate forces meant to reflect the country's various religious communities—has stopped functioning as a body that aspires to take decisions by consensus. A secular-minded Sunni, Mr Siniora took office a year ago in the wake of the departure of Lebanon's Syrian overlords, who had controlled the country since the end of its 15-year-long civil war in 1990. Mr Siniora's inclusion in his government of two ministers recommended by Hizbullah marked a feeling that Lebanese politics had to change with Syria's withdrawal. Hizbullah is the most powerful Shia force in the country, and at about 40% of the total population, the Shias are the largest single religious group. Some Lebanese hoped that a role in government would draw the Shia movement deeper into politics and away from its role as a fighting force.

Mr Siniora has, however, been powerless to stop the fighting or save his country from destruction. So has Lebanon's president, Emile Lahoud, a pro-Syrian Christian whose extension in office beyond his original constitutional span was one of the causes (along with the assassination of a long-time prime minister, Rafik Hariri) of the "cedar revolution" that led last year to the removal of Syria's overlordship. All Mr Siniora has been able to do is to plead in vain with foreigners to secure an immediate ceasefire. No one, it seems, has paid him much attention.

A government in limbo

Ministries meant to tackle the humanitarian emergency have proven totally inadequate, in the face of the massive displacement of people. This may further sharpen sectarian tensions in the country. Some Shia refugees from the south have refused to take food given by the Future Movement, a group assembled by Saad Hariri, who has inherited his father's mantle as head of the country's leading Sunni family. When, after Israeli bombs had been falling on Shia-populated areas for a fortnight, Mr Hariri said Hizbullah should be punished, his Shia audience felt that he was attacking them—whether they backed Hizbullah or not.

There is little doubt that Mr Siniora and his allies in government were appalled by Hizbullah's attack on Israel. Yet so delicate is the balance in his cabinet that most of his colleagues have shrunk from blaming Hizbullah openly. Nor have they accused it of being a stooge of Syria or Iran. Walid Jumblatt, the Druze leader, has been an exception, excoriating Hizbullah—and Syria—for starting the war. Hizbullah's own representatives in cabinet—Muhammad Fneish and Trad Hamadeh—have, like most people linked to the movement, dropped out of sight, bar the odd press interview: hardly surprising, since Israel's forces are trying to kill them.

In any event, the Lebanese government's declared neutrality may have ended after America's secretary of state, Condoleezza Rice, stopped over in Beirut this week. After thanking Mr Siniora for his "courage and steadfastness", she reiterated Israel's ceasefire conditions, then flew off for talks with Mr Olmert.

The team Mr Siniora took to this week's Roman peace conference was a sectarian mix. But his key men hail from the "March 14th Forces", named for the day, last year, when huge rallies in Beirut after Mr Hariri's assassination (blamed by most Lebanese on Syria) began to prompt Syria's humiliating withdrawal. The March 14th alliance is a pro-American clutch of sectarian groups, ranging from the Hariri family's Future Movement and its ally, Mr Jumblatt, to a liberal Christian group and the Lebanese Forces on the Christian right. Its most avowedly secular component is the Democratic Left Movement, the brainchild of Samir Kassir, a leading newspaper commentator who was assassinated (probably by the Syrians) a year ago. Mr Siniora, backed up by a couple more ministers with March 14th ties, broadly echoes the group's demands.

Lurking on the edge of the March 14th fold is the defence minister, Elias Murr; the official Lebanese army has more or less kept out of the fighting. Like his father Michel, Mr Murr has been considered loyal to Syria; he is also President Lahoud's son-in-law. But he too has been marginal.

Neither of Hizbullah's two nominees in Mr Siniora's government went to the Rome summit, where Lebanon's prime minister demanded an immediate ceasefire to be upheld by a UN international force—and said southern Lebanon should come under the control of Lebanon's national army, meaning that Hizbullah's militias should be removed from the area. Yet Mr Siniora's negotiating team had little clout without Hizbullah's participation. Nor, back in Lebanon, will he have much chance of putting his country back together again without Hizbullah's co-operation—unless Hizbullah is smashed by the Israelis and chased out of the south. So far, that does not look like happening.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The ethics of war

Mind those proportions

Jul 27th 2006
From The Economist print edition

As the war in Lebanon shows, there are several ways to make a moral judgment

"YES, Israel has a right to exist and defend itself, but bombing houses, roads and utilities and killing hundreds of civilians is surely far out of proportion to the offence it suffered." "But doesn't it make a difference that our enemy in Lebanon, with its arsenal of rockets standing at 12,000, wants to destroy our state? Consider all that, and surely our response (which falls well short of our potential and tries to minimise civilian deaths) is restrained: proportionate, in fact, to the threat we face."

An argument on just those lines is going on between Israel and its detractors in the world. Both sides in the argument presume that proportionality in war has some broadly accepted meaning which rational people can discuss, refine and apply to real situations. Are they right?

If it is a question about the state of philosophical debate on the morals of war, the answer is yes. Most Western thinking about military ethics has its roots in Augustine, the sainted Christian writer from North Africa whose elaborate theory of "just warfare" has provided a framework for debate over the 16 centuries since his death. And for philosophers in the Augustinian tradition, proportionality is one of the things you should consider when contemplating war. Others are the probability of success and whether warfare is a last resort: have all the other options been tried? In this context, the proportionality question is judged by the destruction which the war will cause, weighed against the good it may do.

Put like that, proportionality is a concept that most Israelis can live with. They would argue that the good which might be achieved by smashing Hizbullah (and the threat it poses not only to Israel but also to Lebanon and other states) does outweigh the travails of Lebanon's civilians.

But proportionality in that Augustinian sense covers only half of the modern debate about military force. What today's Augustinians are talking about is *jus ad bellum*, in other words whether it is right to be fighting at all. Since 1945, there has been a new emphasis in diplomacy and jurisprudence, and in the language of human-rights lobbies, on the other big dilemma in military ethics: *jus in bello*—literally, law in war. The question here is this: once the bullets are flying and you are a belligerent, by what methods and weaponry is it legitimate to wage your war? How careful must you be to spare civilians and non-combatants, such as prisoners and wounded?

That is what the four Geneva Conventions (extensively revised in 1949, though born of a process that began 80 years earlier) and their three "additional protocols" are all about. The Hague war-crimes tribunal, which was set up to punish the enormities of the Balkan wars, has a similar emphasis; it has little remit to consider the cause in which atrocious acts were committed. And Human Rights Watch (HRW), a New York-based group that monitors wars and other abuses all over the world, is even blunter about its area of concern: it consciously blocks out questions about *jus ad bellum* and concentrates its efforts entirely on *jus in bello.*

Using these narrow criteria, HRW did an extensive audit of the American-led campaigns against Serbia in 1999 and against Iraq in 2003—and found that both times the attacking coalition infringed humanitarian law by failing to take enough care to distinguish between military and civilian targets. These rebukes stopped short of denouncing the campaigns in general; from HRW's point of view, that was for others to decide.

But in the case of Iraq, in particular, certain specific misdeeds were identified: using cluster munitions in populated areas, and attacking electric-power facilities in the city of Nasiriya, which, though of some military use, were also vital to civilian welfare. In other respects, HRW found, the coalition tried quite hard to spare civilians.

One of the tests that human-rights analysts use to make these judgments is that of proportionality, albeit in a slightly different sense from the one Augustinians use. For those who monitor human rights, a key piece of language is Article 51 of the first additional protocol to the Geneva Conventions. This outlaws attacks that "may be expected to cause incidental loss of civilian life" which would be "excessive in relation to the concrete and direct military advantage". Even in situations such as Lebanon today, where most of the 1949 Conventions are technically inapplicable because Hizbullah is not a state, the Geneva language is seen as a guide to the spirit of customary humanitarian law.

The trouble is that measuring civilian woes against military gain is a tall order, especially in a densely populated place like Lebanon. For one thing, they are hard to separate: almost any piece of "infrastructure"—a road, a power plant, a reservoir—can serve some military purpose but also helps keep civilians alive.

Critics of Israel's campaign in Lebanon (and Gaza) have been framing their attack in the language of *jus in bello.* Indeed, HRW has already deplored Israel's use of anti-personnel cluster bombs—as well as Hizbullah's firing into Israeli towns of Katyusha rockets, "dirty" weapons that are too crude to discriminate between soldiers and civilians. The lobby group says other aspects of the campaign need more time to assess. Others are saying that there is no military advantage that could outweigh the harm caused to Lebanese innocents who have been killed or forced to flee their homes in terrifying conditions and seen their livelihoods destroyed.

Indeed, it is not clear, judging by the latest reports, that the Israeli army is achieving its declared aim of removing Hizbullah's military threat to Israel's security. So the killing of some 400 civilians and the displacement of perhaps 800,000 of them cannot even be weighed in the moral balance. By this criterion, Israel's actions will surely be adjudged disproportionate in effect, if not by intention.

But the calculus of military advantage versus human cost, suggested in the Geneva formula, could still be used to justify some of Israel's recent tactics. For example, using large bombs to assassinate terrorist leaders, in the knowledge that civilian bystanders will also be killed. When the military gain is so big, Israeli hawks argue, some "breaking of eggs" may be inevitable. That, of course, is no comfort to the families thus bereaved.

In the end, some philosophers think, debate about the ethics of war will have to reintegrate two ancient questions—about the right to go to war, and the methods that may be used—which have become artificially separated in modern times. To put it more simply, nobody will be impressed with a line that goes: "We didn't start this war, so our cause is just—but now that it's begun, we'll fight as dirty as we like." Augustine saw the questions of *jus ad bellum* and *jus in bello* as intertwined—and so, probably, should modern man.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Iraq

Carving up the capital?

Jul 27th 2006 | BAGHDAD
From The Economist print edition

Sectarian divisions, even physical ones, are becoming sharper by the day

WHILE Iraq's prime minister, Nuri al-Maliki, was in London and Washington this week to drum up support for his struggling government of national unity, some of his officials said privately that the country's own capital was getting closer to being physically divided up into defensible sectarian zones. Mr Maliki has had some success in drawing a range of Sunnis and Shias into his "national reconciliation initiative", but outside the blast walls that surround the Green Zone on the west bank of the river Tigris, where the government and some 3,000 officials are hunkered down, the rest of Baghdad's people seems to be at each other's throats as never before. As a result, the prospect of a physical division of the city may be getting closer.

The sectarian violence between Shias and Sunnis (with the Kurds, for the most part, happily tucked away in their autonomous north-eastern region) got a lot worse after the bombing in February of a holy Shia shrine in Samarra, north of Baghdad. Since then, sectarian skirmishing in the capital has become relentless, with the Mahdi Army, who support Muqtada al-Sadr, a populist Shia cleric, lashing out at various Sunni groups. In particular, both sides have been fighting to control parts of Baghdad where both Shias and Sunnis have lived together in mixed areas, especially where they lie either side of the big arterial roads heading towards the heart of the city. In the past few days, at least 100 civilians have been killed, many for no other reason than their sectarian origins.

The militias and insurgents tell members of their own sect to stay in place, then set up checkpoints, slaughter members of the other group, and make survivors flee. Tit-for-tat cycles of revenge now coincide with the cold-blooded logic of territorial control. The UN says that some 3,000 people are being killed each month in this bloodbath. Sectarian cleansing from disputed areas has grown fast. Some 162,000 Iraqis, including 30,000 this month alone, have registered as refugees.

The Sunnis are sitting tight in their strongholds, such as Ghazaliya and Ameriya on the west of the city; in Karkh, on the west bank of the river; and in Adhamiya, on its north-eastern bank. The Shia heartland lies to the east, where the huge slum of Sadr City may harbour as many as 2m Shias; Shias also predominate in Kadhemiya and Shuala, to the north-west. Among the nastiest flashpoints are the southern suburb of Dora; the Jihad district in the west; around Sayediya and Ameriya in the south-west; and on the border between Shuala and Ghazaliya.

One Shia official has recently been quoted saying that the main parties had more or less accepted the coming of a new status quo, and were simply looking for ways to divide the capital between them. Mr Maliki's government cannot, of course, acquiesce in such a partition, in the manner of Beirut's carve-up during its civil war: it would end his unity coalition. Moreover, there does not appear to be a way to negotiate such a deal; Iraqi officials are still searching for interlocutors through whom to talk to assorted insurgents.

Besides, many followers of the Mahdi Army have slipped out of the control of its titular leader, Mr Sadr, who still calls, on paper, for unity between Sunnis and Shias. And Iraq's ruling Shia parties are loth to give Sunni rebels a safe haven for al-Qaeda radicals to wire up suicide-bombs or mass troops for assaults, especially as they may be directed as much against Shia "apostates" as against Americans or

Iraq's fledgling army. The idea of a Sunni zone would be anathema to the government, since Sunni districts abut the Green Zone, Iraq's administrative nerve-centre.

In response, Mr Maliki has persuaded the Americans to bring more American troops into the capital to bolster the 43,000 Iraqi soldiers and police and 7,200 Americans already there, in an effort to saturate areas where Sunni insurgents and Shia militias are fighting it out. The government forces and the Americans are now hitting Shia militias as well as the Sunni ones.

There is still scant sign that a new national security system will hold the country together. The least bad institution, on that score, is the emerging army, which includes a solid contingent of Sunni officers. But most residents, especially Sunnis, fear that police units, such as the commandos, have been helping Shia militias in their sectarian war to isolate the Sunnis and chase them out of Baghdad's mixed areas. Hard to believe, but it could get bloodier.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Somalia and Ethiopia

The Osama factor

Jul 27th 2006 | NAIROBI
From The Economist print edition

Somalia's Islamists hail a familiar leader: Osama bin Laden

Get article background

LAST week's arrival of Ethiopian troops in Somalia's dusty western town of Baidoa, ostensibly to protect the feeble transitional Somali government holed up there against its Islamist countrymen, has pushed the country closer to war. Ethiopia has long been suspected of having troops in Somalia, hidden in the deserts north of Baidoa. Now their very visible arrival in the town, and their entry into others such as Wajid, has raised the stakes.

EPA

That's our hero

Ethiopia's intervention was immediately denounced by Somalia's Council of Islamic Courts, which now holds sway over most of southern Somalia, after recent victories over the CIA-backed warlords of Mogadishu, the country's capital. The two sides are now squaring off against each other across the desert. There have already been skirmishes between Ethiopian troops and Somali Islamists east of Baidoa.

Both the Ethiopians and the Islamists have something to gain from fighting. Ethiopia, which has often meddled in Somalia, is one of the world's oldest Christian-led countries, though it has many Muslims too. A war against militant Islam in the region might make it a useful ally of America, bringing cash and diplomatic support. It would also be quite a coup for the prime minister, Meles Zenawi, since America's Congress recently passed a bill condemning his government as an undemocratic abuser of human rights, which it is.

Ethiopia, fearing that some of its own Muslims will side with the Islamists, will try to strike hard and early, if an opportunity presents itself. Tiny Djibouti, home to a large American military base, and secessionist Somaliland, which has peeled way from the rest of Somalia, could both play vital roles. Their ports serve Ethiopia; their governments oppose Islamists.

War might also, however, help the Islamists, positioning them as the patriotic choice for ordinary Somalis against the supposedly quisling secularists in Baidoa and their Ethiopian masters. Most Somalis have always hated the Ethiopians, whose support for the transitional government, far from saving it, has undermined it. To complicate matters, there are reports that Eritrea, another foe of Ethiopia, is secretly

flying arms to the Islamists.

But war is not yet inevitable. Moderate Islamists still outnumber the radicals, and could yet restrain their more vociferous co-religionists in order to make a power-sharing deal with the transitional government. But it is the radicals, emboldened by their recent victories, who have the guns. They have a clearer vision, not just for building clinics and Islamic schools but for setting up an emirate—to encompass all of Somalia as well as the Somali-inhabited parts of neighbouring Ethiopia and Kenya—to be run by austere *sharia* courts.

Buoyed by arms and money from sympathisers, the radicals have dropped their earlier caution. A few weeks ago, Sheikh Hassan Dahir Aweys, their front man, distanced himself from Osama bin Laden. Now he likens Mr bin Laden to Nelson Mandela. Rallies in Mogadishu are calling for victimised Muslims around the world to come and fight in Somalia. Against whom? Ethiopia, to begin with. Then America. Perhaps finally Saudi Arabia.

A lot of this is simply rhetoric to stoke up Islamist gunmen for a fight. The rallies are strikingly small. The wild talk is still occasionally tempered by cooler speeches from moderates, such as Sheikh Sharif Ahmed, who may still seek to restrain Mr Aweys in the Islamist leadership. But even Mr Ahmed condemns the Baidoa government as "unbelievers" and "traitors" for welcoming Ethiopian troops.

The UN and the main Western countries—in particular, Britain, Italy and Sweden—which have been trying to build up the transitional government now look powerless. The UN, in particular, has been wrong-footed by Ethiopia's incursion and has been reduced to silence, since neither the transitional government nor Ethiopia will admit that an incursion has occurred. The African Union still says it wants to send peacekeepers to Somalia, while the Arab League hopes to sponsor peace talks in the Sudanese capital, Khartoum, in the next few weeks; Somalia's transitional government says it wants them. Meanwhile, both sides want more weapons.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Democratic Republic of Congo

Election fever

Jul 27th 2006 | KINSHASA
From The Economist print edition

Staggering towards a date with destiny

IT WAS never going to be easy, but even so the last week ahead of Congo's historic elections has been rough. Influential Catholics warned that they may not accept the results of the poll; riots rocked Kinshasa, the capital; more civilians were killed in the lawless east; and a stone-throwing crowd jeered President Joseph Kabila as he arrived to campaign in a southern opposition stronghold. But, with a few days to go, it seemed as though things would just about hold together enough for the poll to take place, as planned, on July 30th. The Congolese should be able to choose their leaders freely for the first time in over 40 years.

AFP

Vote for the winner

It will not be perfect by a long way; there have been too many glitches, too many accusations of intimidation and vote-rigging, for that. A simmering row over why quite so many spare ballot papers—5m of them—have been printed, on top of the 26m required for those registered to vote, will not go away. Pessimists fear the extra ballots will be used to rig the vote. The electoral commission, however, says they will be used only to replace those lost or destroyed, and can be tracked.

News that the details of about 1.3m voters have gone missing and that their names will not be on the register on voting day has gone down badly too. Organisers say they will be able to let these people vote, but such problems will fuel mistrust in the official results. Catholic leaders told worshippers in packed churches in Kinshasa on July 23rd, the Sunday before the poll, that they should boycott it if such issues cannot be resolved beforehand.

Taking advantage of his access to state television, the use of the security services and a seemingly unlimited credit line from state coffers, Mr Kabila remains the clear favourite to be reaffirmed as president. His henchmen have been accused of widespread intimidation of the opposition by foreign charities and agencies and by the church. When he arrived for a rally in Mbuji-Mayi, a diamond-mining area in East Kasai province where the opposition is strong, crowds greeted him with stones—a reminder, if one was needed, of just how far Congo still is from any sort of national reconciliation after the country's recent wars, which killed almost 4m people. Indeed, the east is as lawless as ever. This week gunmen killed five members of a family sheltering in a camp in Gety, in the north-eastern region of Ituri, for civilians displaced by recent fighting.

This worries the UN and foreign governments, which have handed over about $400m for the election and are keen to see some benefit from their efforts. The force is already the largest the UN has ever sent anywhere—and has been bolstered by another 1,000 European Union troops for the election, as an added deterrent against anyone who might try to disrupt the polls or challenge the results violently.

Last week, the EU soldiers put on a show, practising hostage rescues and jumping out of helicopters. Next week, some French Mirage jets are due to arrive. But, so far, the EU presence has done little more than reinforce perceptions that foreigners just want to oversee the peaceful coronation of the incumbent, Mr Kabila, rather than a truly open election.

Frustration boiled over in Kinshasa on July 25th, when thousands of demonstrators rioted, throwing stones and Molotov cocktails at the police, who, in turn, shot into the air, fired tear gas and beat people up. "We'll chase away Kabila—our so-called president—and his foreign friends," said a protester. "There's no point in elections, they're rigged already." He warned your correspondent that he would kill any whites he came across on election day.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Spain

Zappy happy on the beach

Jul 27th 2006 | MADRID
From The Economist print edition

Spain's much-maligned prime minister has reason for quiet satisfaction

SUMMER is not what it was in Madrid. Only a few years ago the Spanish capital ground to a halt every August, as offices, shops and bars closed for the entire month. This year, most of the city is planning to remain open. It is yet another sign that one of Europe's best-performing economies, with a decade of continuous growth under its belt, has ditched its old "siesta-and-fiesta" reputation.

One man who will be leaving Madrid is Spain's Socialist prime minister, José Luis Rodríguez Zapatero. The political year is over and, as he hits the beaches in the Canary island of Lanzarote, he may reflect on several triumphs. The economy is powering on—GDP is expected to grow by almost 3.5% this year. The ticklish Catalan question appears to have been answered, with a bit of fudging, through a new autonomy statute. The Basque terrorist group, ETA, is sticking to its permanent ceasefire declared in the spring. A slew of socially liberal legislation, from gay marriage to fast-track divorce, has gone through parliament. To crown it all, Mr Zapatero's Socialist Party (PSOE) has a comfortable, if not huge, lead in the opinion polls.

In short, halfway through his first term in office, Mr Zapatero looks to be a man in control—and one who is increasingly likely to be re-elected in 2008. The leader once jokingly known as "Bambi" may thus be around for a long time to come. Yet he cannot afford to rest on his laurels. His political future may seem promising, but Spain's long-running economic boom is not quite so healthy.

Inflation is close to 4%, almost 1.5 points above the average for the euro area. Spain boasts one of the world's biggest current-account deficits, heading for over 9% of GDP. Cheap credit, a construction boom and domestic consumption, not investment, have been the main motors of growth. House prices, says a recent Goldman Sachs report, may be overvalued by as much as 25-35%. With euro interest rates rising, the housing bubble could well burst, pulling the rug out from under a construction sector that accounts for 16% of GDP and 12% of employment.

"If we weren't in the euro zone, our inflation and external deficit would already have produced recession and devaluation," says Miguel Arias Cañete, economics spokesman for the opposition People's Party (PP).

Economists are divided. Several are just as gloomy as Mr Arias Cañete. "We are not on a good path," says Rafael Pampillón, of Madrid's Instituto de Empresa business school. "It has to come to an end, because we cannot keep building homes at this rate." When the building stops, he says, the cycle by which construction fuels consumption, and vice versa, could be inverted: "the virtuous cycle becomes a vicious one."

The trouble with warnings about an overheated Spanish economy is that they are starting to sound stale. Predictions of collapse in the housing market are at least three years old. Some economists now think that prices will simply flatten out, as they have elsewhere. "A soft landing similar to that experienced in the United Kingdom and in the United States seems the most probable scenario," argues José Carlos Díez, chief economist at Intermoney, a stockbroker. Mortgage-holders have plenty of wiggle-room, he says, to extend payment periods. Spain's banks are robust enough to handle a rise in defaulters. Inflation may eat away at competitiveness, but immigrants have kept wages down, boosted social-security receipts and provided new, eager consumers. Another 650,000 immigrants arrived last year.

All the same, Mr Zapatero has little room for manoeuvre. He cannot devalue a currency, the euro, that is shared with 11 other countries. He cannot look to a sharp rise in interest rates to curb inflation, because rates are set by the European Central Bank, which must take into account the larger, more sluggish, economies of Germany and France. A tighter rein on public spending is another possible response, but the budget is already in surplus. "We are very aware of the importance of budget policy," says David Vegara Figueras, deputy finance minister. "It is important that we do not throw on more gasoline."

Does Spain have much time? Mr Pampillón predicts that the housing bubble, if it bursts, will do so in 2008. "We expect the slowdown to be quite mild," says Javier Pérez de Azpillaga, at Goldman Sachs, who says that GDP growth will remain over 2.5% in 2007. "That is not a disaster. In fact it is very good compared with the rest of euroland." Spaniards may be fretting about high house prices but, apart from that, they show little concern about their consumption- and credit-driven economy.

In politics, meanwhile, the PP has made little effort to return to the centre ground from where it was able to govern Spain for eight years until 2004. Vitriolic opposition to such relatively popular moves as gay marriage or peace talks with ETA plays well to a hard-core conservative audience, but not to the centre. Mr Zapatero has been quick to spot the gap. Indeed, his latest move is a bold attempt to dress the PSOE in the clothes of liberalism.

"In its social and political side, the values of liberalism are better represented by the PSOE than the PP," Mr Zapatero's chief economic adviser, Miguel Sebastián, declared in a recent speech. "In the economy the PSOE also better represents the principles of stimulating the private sector, less intervention and a reasonable-sized public sector."

This is clever, if not entirely convincing. The PSOE can certainly claim to be social liberals. They have also tended to be more liberal economically than, say, their French counterparts. The government even has plans, not yet set in concrete, to cut corporate tax by five points, to 30%, over the next few years. The finance minister, Pedro Solbes, has a well-earned reputation for balancing his budget.

But the PSOE is no free-market party. The government's attempts to obstruct a takeover by Germany's E.ON of a Spanish electricity giant, Endesa, regardless of EU rules, are proof of that. A mild reform of employment law this year made firing workers cheaper, but it still costs a lot more than in other countries.

Yet Mr Sebastián's analysis is intriguing. Spain introduced the word "liberal" to world politics early in the 19th century. But it has no liberal party of its own. Some polls suggest that 18% of Spaniards would define themselves as liberals, rather than conservatives, socialists or any of Spain's other political brands. Whichever of the two big parties can win this floating vote in the centre tends to win an election.

Mr Sebastián is one of Mr Zapatero's closest advisers. Perhaps, as he rests this August, Mr Zapatero might conclude that further liberalisation could kill two birds with one stone—not only warding off an economic slowdown, but also ensuring that he gets a second term.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

French politicians

Publish or perish

Jul 27th 2006 | PARIS
From The Economist print edition

Why French politicians produce so many books

AFP

Sarkozy grins and sells

IN AMERICA, it might be kite-surfing, mountain-biking or anything masculine and muscular. In Britain, it would be sipping warm beer. In France, the required ritual for an aspiring politician is literary: writing a book, or preferably many. The latest to hit the shops is "Testimony" by Nicolas Sarkozy, the leading centre-right candidate in next year's presidential election. This is his pre-election diagnosis of the French—too work-shy, too gloomy, too anti-American, among other things—mixed with a personal pitch to be understood as a straight-talking guy who wants to put things right. It is his fifth publication.

Mr Sarkozy's book has grabbed the most publicity, but it is far from alone. Michèle Alliot-Marie, the defence minister, brought out a volume last year. The prime minister, Dominique de Villepin, may be the most prolific (and florid) of all, with eight books to his name, including two of poetry and a history of Napoleon's 100 days. Nor is writing confined to the right. In September, Ségolène Royal, the left's leading presidential hopeful, will publish a book of ideas. A host of other Socialists will follow this autumn, including Jack Lang, whose book is called "Everything You Always Wanted to Know About Me". Dominique Strauss-Kahn published his latest book in May; Lionel Jospin, a former prime minister, did so last year; Laurent Fabius, another, did it a year earlier.

"It is almost impossible to be a politician in France and not to publish at least one, and usually several, books," comments Dominique Reynié, a political scientist at the Institut d'Etudes Politiques. Some of these works end up unsold in the store-room, but many do well. XO Editions, Mr Sarkozy's publishers, says that, after an initial run of 130,000 copies, it has already had to reprint another 120,000. In the Virgin Megastore on Paris's Champs Elysées, the book is on display even in the music section.

One explanation for all this is cultural. Unlike the British, to whom the word "intellectual" is an insult, the French cherish theirs, inviting them on television talk-shows and clearing space for them on op-ed pages. One poll found 36% of French claiming to read political books, at least occasionally. In Britain or America, politicians pen memoirs only in retirement. Nobody in France asks how a minister has time to write a book. To publish is to exist.

Another explanation is the language. The elite considers the command of written French as an expression of national identity. This also reflects the shadow of de Gaulle, who was a prolific wordsmith before he became a resistance hero and politician. Since his time, every president has tried to follow suit. Pompidou published an anthology of poetry; Mitterrand wrote over 20 books. The most reluctant seems to be Jacques Chirac. According to the Elysée, he has written just five; and one of them is his 1954 student thesis, on "The Development of the Port of New Orleans".

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Italy and the law

Why not let everyone off?

Jul 27th 2006 | ROME
From The Economist print edition

Italy's divine propensity for forgiveness

"THE moral that emerges really is a nasty one," said a leading centre-right politician, Maurizio Gasparri. "People will think it's all right to cheat." He was referring to the outcome this week of an appeal by four of Italy's leading football clubs against penalties imposed for their involvement in match-fixing. On July 14th, just after Italy's national team had triumphantly brought home the World Cup, a sporting tribunal won the country sincere, if bemused, admiration when it imposed hefty sentences on the four clubs, which among them provided over half the players for the national squad. Juventus, whose executives organised the match-fixing ring, was relegated to the second division, and told that it would begin the next season with a 30-point handicap.

But this week, after hearing from Juventus's lawyer that such a punishment would be financially disastrous, an appeal panel cut the points deduction by half. Two other sides facing relegation won even better treatment: they were allowed to stay in the first division, as well as having their points penalties cut. Silvio Berlusconi's club, AC Milan, has even had its sentence adjusted so that it can take part in the next European Champions' League.

Such generosity towards the convicted is not the only sign of Italians' seemingly limitless capacity for forgiving one another. The Italian parliament is currently debating a proposal for a mass pardon that would reduce past sentences for all but the worst crimes by three years. This is the centre-left government's response to prison overcrowding. Italy's jails, designed for 42,000 inmates, now hold over 61,000. But to get its mass pardon (which might free as many as 16,000 people) through, the government needs a two-thirds majority in parliament. That means winning support from the centre-right opposition, led by Mr Berlusconi. So it has framed the pardon to include people convicted of such offences as fraud and corruption.

This could be good news for Mr Berlusconi's former lawyer, Cesare Previti, who has been sentenced to six years for bribing judges, because he could serve out the remainder of his sentence doing social work. But Antonio Di Pietro, a former anti-corruption prosecutor who is now a government minister, says the small print would also mean reduced sentences for anyone accused of offences committed before May 2nd but not yet tried.

That could include Mr Berlusconi himself, since he has just been indicted yet again, this time on charges of embezzlement, false accounting and tax dodging. It might also be helpful to those who are on trial for the giant Parmalat fraud of 2003 that gave Italy such a decidedly unsavoury reputation among foreign investors. All right to cheat? In Italy, it seems, you'd be crazy not to.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Germany's armed forces

Abroad, by inches

Jul 27th 2006 | POTSDAM
From The Economist print edition

Afghanistan, Congo, maybe Lebanon: more German troops are going abroad

AFP

In a faraway country

THE Luftwaffe, the Red Army, the East German Volksarmee, the Bundeswehr: the Henning-von-Tresckow barracks, named after a German general who tried to blow up Hitler, has had many tenants. Its latest may be the most surprising of all. For this base near Potsdam is the European Union's operational headquarters for its mission to Kinshasa, capital of Congo, during the election this weekend.

The flags of 20 EU members (plus Turkey) mark the mission's command centre. But the focus of interest is Germany, which is providing not only the bulk of the EU contingent, but also its commander, Karlheinz Viereck—a first since the war. The Congo mission now has added significance in the light of talk about European troops going to Lebanon. German officials do not exclude that possibility, given Germany's historical responsibility to defend Israel. Others say it is precisely because of history that German uniforms cannot be seen near Israel's borders.

At all events, it is a far cry from the pacifism of Germany up to the 1990s. Surprisingly, it was the Social Democrat/Green government that broke the post-war taboo against sending troops into armed combat. In late 1998, Chancellor Gerhard Schröder survived a vote of no confidence to send fighters into former Yugoslavia. "If there is a historic achievement of the Schröder government, it was overcoming this taboo, while preserving the policy emphasis on civilian power," comments Constanze Stelzenmüller, of the Berlin office of the German Marshall Fund.

Since then, Germany has become a big provider of peacekeeping troops, with 7,706 now spread over a dozen missions (see table). Congo is a step to normality in another way. For the first time, the debate was not about moral imperatives, but plain national interest: the threat of Congo becoming another failed state. It did not split along party lines, either; rather, the argument was between "internationalists" and "isolationalists". Social Democrats, young Christian Democrats and even Greens favoured the mission. It was opposed by the Free Democrats and an old guard of cold-war defence buffs. The compromise, which parliament approved by a big majority, was to limit the mission both in time (until the end of November) and geographically (to Kinshasa only).

Roaming the world
German troops on foreign assignments

Mission	Numbers
Kosovo	2,855
Afghanistan, Uzbekistan	2,770
Bosnia	892
Congo	760
Horn of Africa	270
Sudan	39
Georgia	12
Other	108
Total	7,706

Source: Deutsche Bundeswehr

Lacking a clear position in advance, Chancellor Angela Merkel found it hard to say no to French demands that Germany take the lead in Congo. Strategic debate in Berlin has yet to reach the level of, say, Paris or London. The media have worried most over whether German troops might catch diseases, or have to shoot at child soldiers (if attacked, they will, is Mr Viereck's obvious answer). And there are still doubts over how Germans might react were things to go badly wrong.

That some 63 German soldiers have died on foreign missions since the early 1990s has caused remarkably little stir. Although two-thirds of Germans disapprove of sending soldiers to Congo, few have

protested. Yet with the Bundeswehr mostly engaged in humanitarian work and peacekeeping, Germans may see sending soldiers abroad as just a form of armed development aid. "When Somalia turned out a failure in the mid-1990s, we were thrown back several years," says Stefan Mair of the German Institute for International and Security Affairs. Many Germans seem surprised that their soldiers in Afghanistan have been targets of attacks.

To avoid a backlash, Germany needs a proper discussion of how to decide where troops should go. It should get involved earlier, so that it can influence decisions about operations. But Germans do not seem ready for this. The government has postponed decisions on defence and security guidelines. Rather than discussing the Bundeswehr's forays abroad, the argument has been over whether to use it at home. Yet new missions are on the horizon: if not Lebanon, perhaps Sudan. With Germany holding the presidencies of both the EU and the G8 in the first half of 2007, it will have a hard time saying no.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Turkish education

School scandals

Jul 27th 2006 | ANKARA
From The Economist print edition

A crucial area for reform in Turkey is education, especially for girls

A RECURRING gripe about Turkey is that, although it has changed many laws to fit European Union demands, it has not changed minds so as to ensure their proper implementation. This will happen only if Turkey's education system is overhauled. For it is in schools that the prickly nationalism that makes so many Turks resistant to change is nurtured.

As Turkey prepares to open negotiations on education and culture with the EU later this year, the case for education reform has gained urgency. But change is equally vital if Turkey is to remain competitive. According to a recent World Bank study, only 40% of Turkish youths have a secondary-school diploma. One in three school-aged girls does not attend school, compared with one in ten boys—a much bigger sex gap than in the EU. The situation in the country's hard-scrabble Kurdish region is worst of all: only 14% of girls there go to secondary school.

The spectre of masses of poor, unskilled Turks flooding Europe is one of the reasons why many Europeans are opposed to Turkey's membership. The mildly Islamist AK government under Recep Tayyip Erdogan has battled to change that perception, but with limited success. Education has long been an ideological battlefield: between left-wing and right-wing Turks, and more recently between Islamists and secularists.

Soon after the 1980 coup, the country's fiercely pro-secular generals fired hundreds of dissident academics and set up a Higher Education Board to ensure that faculties and campuses remained strictly pro-secular. This body, known as YOK, still enjoys sweeping powers, such as drawing up university curriculums and entrance exams and nominating rectors. YOK also ensures that the ban on Islamic style headscarves is strictly observed. It has thwarted AK's attempts to promote the Islamic clerical training establishments known as *imam hatip* schools.

Yet the AK party has made some headway. In 2004 it scrapped the army representative on YOK. It ran into surprisingly little resistance when it brought in a revised curriculum for primary and secondary schools. One of its goals was to replace rote education with critical thinking. Pupils are no longer required to write in uniform block print, but in joined-up letters, allowing their individual personalities to emerge. Racist language aimed at Turkey's former enemies, notably the Greeks, is being gradually purged.

Mr Erdogan's wife, Emine, has also thrown her weight behind a nationwide campaign to promote female education. She has used her considerable charisma to persuade unwilling fathers in person to send their daughters to school. In the predominantly Kurdish province of Van alone, 14,000 girls, who might have been married off or sent out to work, have enrolled since the start of her scheme in 2003.

Opportunities for Kurdish and other disadvantaged children should expand now that Bilkent, a top private university, has, after years of lobbying, been given permission to build a string of competitive prep schools across Anatolia. Two-thirds of them will be on full scholarships. Most teaching will be in English.

The government faces other demands too. The country's liberal Shia Alevi sect wants to be exempted from religion classes. The Alevis, thought to make up a fifth of the population, say they do not want the Sunni Islam practised by most Turks forced down their children's throats. One family has taken its case to the European Court of Human Rights. The court is expected to rule in its favour. Leaders of the largest pro-Kurdish party, the DTP, have also demanded that all bans on education in Kurdish be removed. This is hard to imagine when the Kurds are not mentioned in a single school textbook.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Turkey and free speech

Flying insults

Jul 27th 2006 | ANKARA
From The Economist print edition

Another writer, another prosecution for insulting Turkey

A WILLOWY blonde, as fluent in Spanish and English as in her native Turkish, Elif Shafak should be a poster girl for Turkey's push to join Europe. Yet most Europeans will become familiar with this award-winning novelist only when she stands trial (by then heavily pregnant) later this year for "denigrating Turkishness" in her latest novel, "The Bastard of Istanbul". A fictional Armenian character's musings about the mass slaughter of the Ottoman Armenians in 1915 may yet land Mrs Shafak in jail for as long as three years.

If so, she will have lots of company. The Turkish Publishers' Association says that 47 writers face prosecution, on charges ranging from insulting the father of modern Turkey, Kemal Ataturk, to defending conscientious objection (though Perihan Magden, another woman novelist, was acquitted on this charge on July 27th). Earlier this month, a high court confirmed a six-month jail sentence handed down to Hrant Dink, a newspaper publisher, for an article in which he exhorted fellow Armenians to expunge themselves of their hatred of Turks. That too was construed as an insult to Turks.

Joost Lagendijk, a Dutch member of the European Parliament, has noted that the clampdown on free expression, together with Cyprus and the Kurds, constitute "the biggest obstacle" to Turkey's hopes of joining the EU. Ironically, Mr Lagendijk was himself investigated earlier this year for "insulting Turkey".

Leading the drive to muzzle free speech is an ultra-nationalist lawyer, Kemal Kerincsiz. He brought a case against Turkey's best-known author, Orhan Pamuk, which was dismissed in January. A rise in nationalist sentiment has allowed Mr Kerincsiz to keep hounding writers such as Mrs Shafak. Some think he is an agent of the "deep state", a shadowy coalition of rogue members of the security establishment who allegedly oppose Turkey's EU aspirations.

Far from scrapping the laws that threaten free speech in the new penal code, the government has just passed a new anti-terror bill that reintroduces jail sentences for journalists. This has brought fresh complaints from the EU that the government is backsliding on reforms. But with the proportion of Turks who have a positive view of the EU dropping from 61% last year to only just over 40% now, fewer Turks may care. Ahead of elections next year, nor, apparently, does the government.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Housing

Field of dreams

Jul 27th 2006 | IPSWICH AND UPTON
From The Economist print edition

Something exciting is happening in Britain's suburbs

TWO miles west of the central English town of Northampton, amid the roundabouts and cul-de-sacs, Utopia is under construction. A terrace of tall Georgian-style houses looms over the surrounding landscape. Next to them sits a row of Arts and Crafts homes, each with its own majestic, pointless chimney. "Mayfair in Upton" is how Sue Cutts, a sales manager for Paul Newman New Homes, describes the miniature town that is emerging on what used to be farmland. If it is not Mayfair, Upton is certainly odd.

In time, though, it may come to seem as normal as the tracts of two-story, semi-detached homes that dot Britain today. Upton's site is owned by English Partnerships, an official agency that regenerates disused government land. In a country in which planning permission for large housing developments is hard to obtain, the agency wields great power. Together with the Prince's Foundation, an outfit set up by the heir to the throne, it is using Upton as a template for future suburbs. Many are already under way.

The principles behind Upton are more than a decade old—indeed, proponents argue they are hundreds of years old. Traditional architecture, densely packed houses, geometric street plans and the attempt to create communities rather than just tracts of houses are hallmarks of the American "new urbanist" movement that began in the 1980s. Poundbury, a traditionalist village in western England championed by Prince Charles, was started in 1993. To begin with, such experiments were widely mocked. Poundbury is still seen by many British architects as a backward-looking fantasy; the Architectural Association teaches it alongside Michael Jackson's Neverland ranch. The Florida town of Seaside became the setting for "The Truman Show", a film about fakery.

Everybody scoffs, that is, apart from those who matter. Home buyers like Poundbury's houses: they sell for 5-10% more than similar-sized properties nearby in Dorchester, says Fiona Elder of Elder & Froy, a local estate agent. Planners like the emphasis on communal life. Most important, the government sees in the new suburban model a way of achieving some of its own objectives. As a result, ideas that remain interesting but marginal in America have become mainstream in Britain.

What the government wants (and is prepared to enforce through planning guidelines) is for people to live close together rather than sprawling over the countryside, thus preserving both precious greenery and the ozone layer. The new suburbs certainly facilitate that. When it is finished, Upton will cram 45 properties into a hectare (18 per acre). That is about twice as many as planners would have tried to fit into the same space a decade ago, and at least three times as many as a typical American suburb.

One way developers have managed this is to cut back on parking. Ravenswood, a new suburb of Ipswich that is still being built, will have only one and a half spaces per property. That is becoming the new standard, although most home buyers in Upton will be given just one private parking space. And they can forget about converting front gardens into overflow parking. Many houses are set back no more than 2m (6½ feet) from the street; in the Georgian-style terraces, it is possible to walk along the pavement tapping on windows, just as in London's West End.

The lack of what planners refer to as "defensible space" is not just a way of pleasing government officials. It is also a means of forcing residents to become more sociable. That is also why the new suburbs eschew cul-de-sacs in favour of interconnected streets, often laid out in a grid. In a traditional cul-de-sac, "the only people to be seen are those who live there, those who deliver the post and burglars," according to Steve Carr of English Partnerships. In a new suburb, on the other hand, people must walk past one another's homes on the way to the shops.

Lest anybody take the opportunity to misbehave—by actually tapping on windows, say, or by stealing one of the cars parked so invitingly on the street—houses allow informal surveillance. Windows are placed so that they overlook streets and courtyards. In Upton, the upper 60cm of the fence surrounding each back garden is trellised, so that residents can keep an eye on each others' cars.

In theory, though, there should be little crime in a new suburb. That is not because everybody is expected to be well-off; rather, it is thanks to social engineering. The government wants developers to mix poor people whom the state subsidises with those who can buy homes on the open market. Putting people who have some incentive to steal next to those who have things worth stealing is supposed to improve the morals of the former. In the Wixams, a settlement planned for the outskirts of Bedford, a quarter of properties will be "affordable". Small clusters of homes, many of them rented from housing associations at below-market rates, will be dotted among more expensive houses and will be indistinguishable from them, to avoid stigma.

The point of this micro-management is to create communities that seem to have evolved gradually. The sense of organic growth is also enforced through tight control over the appearance of buildings. Several new suburbs, including Upton and the Wixams, are subject to design codes, which greatly restrict what builders can do. In Upton, for example, front doors must be at least 75cm wide and cannot be made of varnished wood. Yet the codes also ensure that buildings within the developments vary in height and design, as in a traditional village.

The results are occasionally weird. In Ipswich, brick houses abut wooden-sided cottages that could have been lifted from a New England fishing village. In the next street, the dominant style is vaguely Scandinavian. That opens into a Parisian-style boulevard; turn left, and you are in a Victorian main street. Once inside the front door, history fragments further. Real Victorian houses do not, for example, tend to feature "E-LIFE", an integrated cable, DVD, broadband and music system with ceiling-mounted speakers in up to four rooms, although they are the worse for it.

If you build it, will they come?

At present, properties are selling well, but that probably says more about the state of England's housing market than about buyers' enthusiasm for small gardens and reduced privacy. The real test will come during a slump. Traditional suburbs may be disliked by planners and the government, but they are hugely popular with buyers. The fate of the new suburbs may depend on how closely they can be made to resemble that familiar model. Upton, which goes so far as to ban satellite dishes and external taps for watering the garden, will probably have to compromise.

In one small way, the new suburbs have already failed. By putting houses close together and insisting on good public transport, planners hoped to wean people off cars. That hasn't happened. Parking spaces may be restricted, the roads deliberately narrow, but people insist on driving. In Ravenswood, even before all the houses are sold, cars are beginning to sprout on the fringes of roads, like weeds.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Vodafone

A very unBritish coup

Jul 27th 2006
From The Economist print edition

Why quiet diplomacy turned to open rebellion at Vodafone

ANNUAL shareholders' meetings in Britain are meant to follow a comforting, if sometimes fractious, routine. Individual investors take the microphone year after year to heap scorn on the managers of their companies. Often there is name-calling. More often there are complaints about the sandwiches being served. Sometimes there are grumbles about the previous year's sandwiches. This is usually followed by a mad rush for tea, biscuits and the much-maligned sandwiches in an adjoining room.

The official business of the meeting—voting on such weighty matters as the election and payment of directors—is usually of little consequence. Not so on July 25th, at the annual meeting of the world's biggest mobile-phone company, Vodafone. Almost 10% of voting shareholders opposed the re-election to the board of Arun Sarin, its chief executive, with another 5% abstaining. On a separate motion, 20% failed to support an executive-pay plan lowering performance targets for bonuses. The dissent, the most significant in recent years, has shaken not only the company but also Britain's investment community. This, after all, is not how things are done.

Unlike Carl Icahn and Kirk Kerkorian, two active American investors who relish their very public (and often bruising) encounters with company managers, Britain's investing institutions have long favoured a more diplomatic approach. Often no more than a quiet word in the ear of a company's chairman from a powerful institution or two is needed to precipitate a change in strategy or a board reshuffle.

So quiet is the diplomacy that at first glance Britain's investors appear supine. Shareholders supported resolutions proposed by directors with 98% of all votes cast at meetings of Britain's 100 biggest quoted companies last year, according to Manifest, a proxy-voting agency.

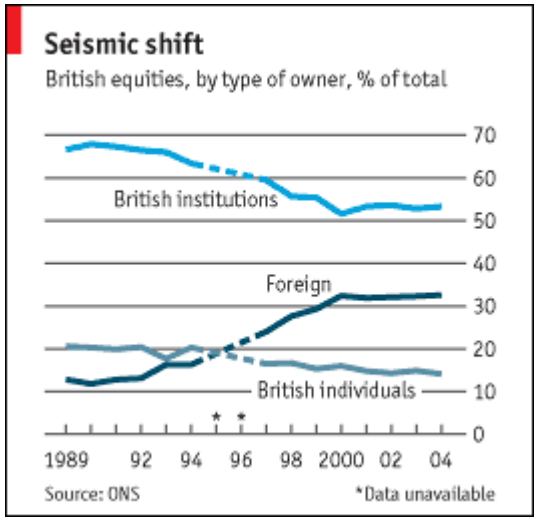
Yet chats behind closed doors have achieved a great deal. Take so-called "golden parachutes", the large pay-offs that even the worst exiting executives sometimes receive. In 1997 some 123 FTSE-100 top managers were entitled to severance packages worth more than a full year's pay. Quiet lobbying by institutions has cut that to just seven now.

So what then prompted established British investing institutions such as Standard Life Investments, Morley Fund Management and Hermes Pensions Management to mount an open rebellion against Vodafone's board? And does it signal the end of corporate diplomacy?

The old style of quiet engagement worked well when share ownership was more concentrated in the hands of a small number of British institutions. Fund managers could make a few phone calls, build a consensus and then "speak for Edinburgh"—or at any rate for a substantial block of shares. Dialogue was also made easier by the corporate broker, that curious British figure who is appointed to act as intermediate between a company and its investors. And unhappy institutions could always sell a firm's shares and move on.

But times are changing. Institutional investors are a less cohesive group than they used to be. Almost a third of British shares are owned by foreigners now—up from 13% in 1989 (see chart)—many of whom have different rules of engagement. Much of Vodafone's stock is held by institutions in North America, where investors are used to flexing their muscles publicly.

Institutions also find it harder to dump shares and run than they did. Many measure their results against those of index-tracking funds these days and thus want to hold at least a stake in the biggest firms. They are also under pressure from their clients to secure returns more similar to the double-digit profits made by buy-out firms and (some) hedge funds. So many once-staid insurers and pension-fund managers are adopting similar tactics, trying to wring out juicier deals by intervening actively in company management.



Against that background, the quiet word in the ear was tried at Vodafone and failed, mainly because both board and shareholders were divided. Some investors did speak privately with its chairman, Lord MacLaurin, but got little joy. Lord MacLaurin was on his way out and happy to leave the decisions on Mr Sarin's future to his successor, Sir John Bond, the former head of HSBC who took over this week.

Nor were powerful shareholders united. Vodafone's problems are well known—the company announced a £22 billion ($41.2 billion) annual loss in May—but solutions to them are less clear. Institutions such as Legal & General, an insurer that owns 3.7%, argued that it would be unwise to change the chief executive and chairman at the same time.

In the event, the rebels failed to carry the day in open confrontation too. But then, they had not expected to. "The purpose wasn't to oust Arun Sarin then and there," says Anita Skipper of Morley. "The purpose was to say to John Bond that there are concerns."

The change in tone and tactics at Vodafone suggests that relations between British companies and their owners may become more testy in coming years. Whether this will lead to better performance remains to be seen. But it bodes ill for the quality of the sandwiches they serve.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Northern Ireland

Rough justice

Jul 27th 2006 | BELFAST
From The Economist print edition

One obstacle to restoring devolved government is crumbling

BRITAIN's MPs go on holiday this week with their return-to-work dates in their diaries. Not so in Northern Ireland, where the 108 elected legislators have been warned to put their staff on notice. Unless the political parties agree to share power by November 24th, the entire Stormont Assembly will be sacked, devolution will be suspended and direct rule from Westminster, in consultation with Dublin, will prevail until further notice.

A major sticking point is criminal justice. This week, the British minister for Northern Ireland and the Irish justice minister reported that the IRA was ceasing not just paramilitary activity but organised crime as well. But if republicans are no longer robbing banks, they are not quite co-operating with the police, either. To do so would be a huge step away from the republican dogma that British administration of the province is illegitimate.

Yet things are changing, partly because of police reforms. One in five officers in Northern Ireland's police service is now Catholic; the old Royal Ulster Constabulary, by contrast, was more than 90% Protestant. In a place where policing was once a major part of the problem, this is an achievement. An affirmative-action recruitment policy and an English chief constable, Sir Hugh Orde (who arrived first to investigate RUC collusion with loyalist paramilitaries), have altered perceptions.

Few of the new Catholic recruits come from hardline republican districts. But ministers and senior officers believe that republicans are slowly coming round to the police. There was little violence on July 12th, the Protestant Orange Order's big marching day. That was a contrast to last year's marching season, when Catholics attacked marchers and loyalist gunmen fired at police and soldiers. One reason is that leading republicans helped police keep order while an Orange parade passed Ardoyne, a north Belfast flashpoint, making army reinforcements unnecessary.

The most prominent republican involved was Gerry Kelly, Sinn Fein's policing spokesman and a convicted bomber. Mr Kelly and the police commander agreed their positions ahead of time in meetings, which would once have been unthinkable, and Sinn Fein later made them public. That helped to divert anger, if not to lessen it. As the police whisked the Orangemen past, Catholic youths confined themselves to abusing the republican "policing" unit.

Republican involvement in other aspects of law and order is more troubling. Northern Ireland has some 20 "restorative justice" schemes, 15 of them in Catholic areas. As elsewhere, panels of local people bring young offenders to face their victims, and urge them towards apologies and amends. In republican neighbourhoods, though, these schemes tend to function not as supplements to the mainstream criminal-justice system but as alternatives to it. Unlike Protestant loyalists, the republicans refuse even to liaise with police.

Support groups for battered women and rape victims say that the panels may shield, or even be operated by, offenders. Others object to any involvement of IRA figures in restorative-justice panels. Mark Durkan, leader of the moderate nationalist SDLP, frets that Sinn Fein is running its own "quasi police". His party voices the concerns of families like the McCartneys, who lost one of their number in a Belfast pub brawl. They say his murder was committed and covered up by IRA members.

The British government is trying, in this as in so many other areas, to walk a careful line. In a consultation paper launched this week, it proposes that restorative-justice schemes should engage directly with the police. The schemes must not, it insists, become "a tool for local paramilitary control". But, in effect, some former paramilitaries will still be allowed to run them. The proposals are already

under attack, not least by David Cameron's Tories.

Getting devolved government up and running again is a messy, morally compromising business that depends on a benign reading of some dodgy characters. Ministers and senior policemen look at Mr Kelly and the members of the restorative-justice panels and see bombers in transition; the SDLP, the McCartneys and unionists see only misleadingly peaceful masks.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Child Support Agency

Death to the enemy of deadbeat dads

Jul 27th 2006
From The Economist print edition

The worst government agency around is finally scrapped

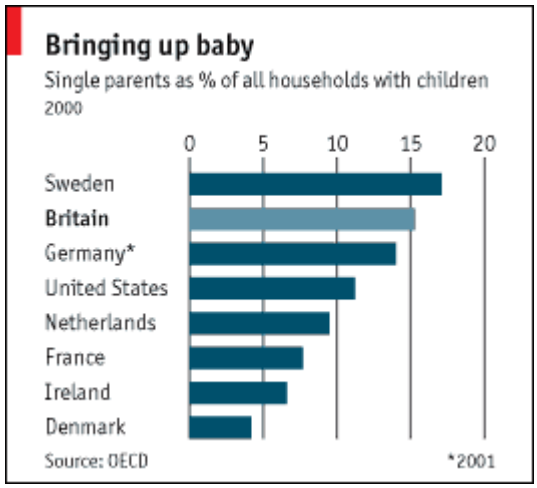
FOR more than a decade the Child Support Agency (CSA), which is meant to secure maintenance payments for single parents on welfare from their ex-partners, has clung to the contested title of most hapless government agency. There is no shortage of numbers to illustrate its failings: £3.5 billion ($6.5 billion) in uncollected payments, 330,000 unprocessed claims, £539m spent on a recent round of reforms that, according to the National Audit Office, failed to improve it.

Staff at the CSA took more days off sick last year than any other workers in the Department for Work and Pensions (DWP), which is notoriously prone to swooning. Its enforcement arm spends more than it collects yet still manages to be ineffective, with a habit of ignoring persistent non-payers to go after soft targets. Exasperated mothers have had to track down fathers themselves, supplying the CSA with their addresses and details of how much they earn. This week the government finally announced that it and the CSA would go their separate ways, after a review by Sir David Henshaw, formerly of Liverpool City Council, declared that the agency could never be made to work properly.

Many of the CSA's troubles can be put down to lousy management and design, which may be corrected when its successor is sketched out in a white paper in the autumn. Early signs are that the new agency will reduce its workload by encouraging parents to enter into voluntary agreements, put more energy into prising open the wallets of deadbeat dads (or non-resident parents) and create incentives for them to pay up by docking less from mothers' welfare payments if they do. With luck it will look something like the equivalent agency in Australia, which deducts money directly from the paychecks of footloose parents and has proved effective.

Not all of the agency's problems have been its fault, however. For it has been trying to enforce rules that accord with traditional family structures at a time when the shape of families is changing fast.

When the agency was created in 1993, single parents were a big political issue: there suddenly seemed to be lots of them, and many did not have jobs. The CSA therefore received cross-party support. Conservatives fretting about the decline of marriage backed it as a way to save on welfare and force fathers into accepting responsibility for their children; Labour types saw a way to increase the incomes of single mothers. In the process the Tory party ended up sounding censorious about single parents, thereby getting on the wrong side of a demographic trend that has helped to keep it out of power ever since. For Britain now has a higher proportion of single-parent families than most other rich countries (see chart).



This is largely a side-effect of the rapid rise in cohabitation. Work by John Ermisch at Essex University has shown that only a quarter of women born in the 1950s moved in with their partners before walking up the aisle but four-fifths of women born in the 1970s did. Births outside marriage have risen accordingly, from 9% of the total in 1975 to 43% in 2004. Cohabitation is common in other parts of Europe too, but in Britain couples who live together unmarried seem not to last: half split up after three or four years and a little less than half go on to marry (before perhaps divorcing later).

While these changes have been taking place, consensus as to who is financially responsible for the

children when unmarried parents split up has been slow to form. Research published by the DWP this week shows that, among those whom the agency po-facedly refers to as its clients, there is hardly any agreement about what a father's obligations are.

This is particularly true in cases where a child is born after an unplanned pregnancy, a mother finds a new partner, or a father is receiving welfare. Rising numbers of women in work may also have eroded a paternal sense of responsibility. Put simply, the CSA has been trying to enforce a set of rules that many of the people it deals with no longer recognise. Its replacement will face the same problem.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

NHS reform

Fast forward

Jul 27th 2006
From The Economist print edition

Now it's the bean-counters' turn

THERE was much to annoy the many opponents of Labour's health-service reforms this week. The NHS's logistics arm and much of its bulk purchasing of general supplies will soon be outsourced to DHL, a German company. Unison, a health-service union, is balloting workers affected to strike against the transfer. It also emerged that Boots, the high-street chemist chain, may allow doctors to operate from its premises. The British Medical Association said it was worried about the idea. Meanwhile a committee of MPs held that private clinics, which have been commissioned to provide publicly funded health care, were poorly integrated into the NHS.

This chorus of disapproval will not divert the government from its course of injecting more market discipline into the health service. As before, it wishes to encourage more private provision. It also wants to turn more and more NHS hospitals into foundation trusts, which have greater financial autonomy and more incentive to compete.

A bigger worry for Labour ministers has been the emergence of hefty deficits within the NHS at a time when it is receiving massive increases in public money. In 2005-06 the health service ran up a net deficit of £536m; almost a third of its 600 organisations went into the red. These financial difficulties undermined Labour's claim to competence in running the NHS.

In response, Patricia Hewitt, the health secretary, asked the Audit Commission to review the health service's financial management and accounting regime. On July 26th it made recommendations that provide little comfort to those hankering for a return to the cosy ways of the old NHS.

At present, the overriding stipulation for NHS hospitals, other than foundation trusts, is to break even in each and every year. There is no incentive, on the other hand, to generate a surplus. Hospital trusts that run up deficits can often be bailed out through transfers from organisations that happen to be in surplus.

Manifestly, this system is not working. Under the Audit Commission's proposals, the health service will instead broadly adopt the accounting regime for foundation trusts. This will move it on to a more businesslike model of financial reporting. As in the foundation sector, there will be a greater focus on cash flows and hospitals' trading positions. It would be possible to incur a deficit in one year provided there was a workable plan to recover it in subsequent years. Hospitals with surpluses would be able to lend them to an NHS banking facility and get interest.

In two respects, the proposals might appear to loosen the discipline on poorly performing hospitals. First, they would be allowed to run a temporary deficit. And hospitals that do would no longer see their budget clipped while they were struggling to repay it.

The Audit Commission argues, however, that if the health service is to operate more as a market, then hospitals have to be allowed to trade more as commercial enterprises. Furthermore, it advocates prompter intervention to deal with hospitals in financial trouble. As long as Labour retains its political nerve, especially when it comes to closing hospital facilities, these recommendations should help its programme of reform.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Animal rights

Good news for humans

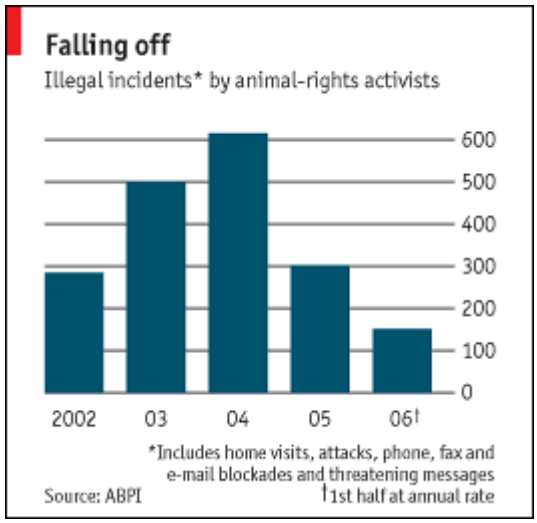
Jul 27th 2006
From The Economist print edition

The public mood turns against animal activists

CAMPAIGNERS for animal rights are losing their long war against scientific experimentation on animals. Public sympathy for the cause is leaching away as the well-publicised antics of a violent few taint the image of the pacific many. New legislation has restricted even peaceful protest; the police have got tougher on bad behaviour; and figures released by the Home Office this week show that animal experiments have reached their highest level in 14 years. Is it the end of an era?

The British are famed for preferring pets to people, and Britain has long been in the vanguard of the animal-rights movement. But the tactics of some activists, which include vandalism, sabotage and other sorts of harassment, have caused a backlash. On May 11th three animal-rights agitators were jailed for 12 years for the bizarre offence of stealing a corpse for ransom. It was that of Gladys Hammond, mother-in-law of a man who bred guinea pigs for animal research, and the three refused to return it until the farm was closed. Small wonder that a survey that month by YouGov, a polling firm, found that almost all of those questioned disliked such tactics and 70% supported animal testing. In previous surveys only half had done so.

The police, for their part, have stepped up action against violent activists. The National Extremism Tactical Co-ordination Unit (NETCU), set up in 2004 to investigate extreme single-issue groups, says that it knows of around 40 violent animal-rights campaigners as well as about 15 planners responsible for an "organised campaign of harassment and intimidation". They have new powers to deal with such people under the Serious Organised Crime and Police Act, which became law last year. The Association of the British Pharmaceutical Industry (ABPI) says that violent and unpleasant incidents reported by its members have fallen sharply (see chart).



A question of priorities

Some credit a 16-year-old schoolboy with doing more than anyone to change public opinion on the issue. Oxford has seen violent protests since the university started building a laboratory for animal experiments in 2004. In January 2006 Laurie Pycroft started a group in defence of vivisection for medical research, Pro-Test, to counter those who believe that animals have rights equal to those of humans. He captured the imagination, and Pro-Test has rallied hundreds of supporters.

Thirty-three universities have now come out publicly in favour of animal testing, and debate in general is less one-sided. Twenty medical charities, including Help the Aged and the Multiple Sclerosis Society, have posted statements on their websites arguing that cures for some conditions cannot be found without animal testing. (Most, however, do not give interviews for fear that their staff will be threatened or donations will fall off.) In April the Coalition for Medical Progress, which represents pro-vivisection voices in commerce and science, launched an online petition in support of well-regulated animal research. Twenty thousand people have signed it so far, including one Tony Blair.

It helps that, of the 2.9m experiments that the Home Office says were carried out last year, only a small proportion were the sorts of procedures that make even pro-science types wince. About a third consisted of breeding animals for laboratory tests. Some were genetically modified so that scientists can study human diseases by placing genes inside developing embryos; others were never used at all. Ministers say that the tests (84% of them on rodents) are tightly regulated.

All this has focused attention on just what the trade-off should be between the wellbeing of animals and the wellbeing of humans. One charity that has decided to be open about its own use of animals in research is the British Heart Foundation. John Martin, a leading university researcher, speaks for it unapologetically, "I don't believe animals have rights, but we do need to treat them humanely."

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bagehot

End of term

Jul 27th 2006
From The Economist print edition

When MPs return from their long summer break, the countdown to Tony Blair's departure will begin

OVER the past few sweltering weeks, shorts and T-shirts have steadily taken over from suits and ties as the dress code in 10 Downing Street. A sign of creeping demob happiness or just a lack of air conditioning? Probably a bit of both. As the prime minister packs his bags for a brief trip to America before beginning his summer holiday, there is a distinct feeling that when he returns the countdown to his departure will begin in earnest.

These are strange political times. Tony Blair's energy and appetite for the job is undiminished. According to those who see him daily, he is unfailingly cheerful. Such is his sense of purpose that he refuses to be distracted even by the increasingly menacing police investigation into party funding.

Yet a thoughtful speech this week on public-health policy, the second of a series he is giving on domestic issues, inevitably had a valedictory ring to it. A part of Mr Blair believes power is such a precious commodity that it should never be given up willingly. But everything now suggests that he has settled for a dignified exit, instead of waiting for his fingers to be prised one by one from the Downing Street door.

On the not entirely safe assumption that the police fail to find evidence to support charges that Labour's fundraisers sold peerages, it is now hard to imagine circumstances in which Mr Blair would not go around the middle of next year. The most plausible scenario is that he will announce his departure on May 2nd, his tenth anniversary as prime minister and on the eve of elections to the Scottish Parliament, the Welsh Assembly and councils up and down the land. If Gordon Brown has to dispose of a challenge from the left, Mr Blair will probably not take his final bow until the G8 meeting in June.

Most of the MPs who left Westminster this week for the long recess would prefer a less drawn-out timetable. This is not so much a reflection on Mr Blair as a yearning for the political fight to begin in earnest, which cannot happen until Mr Brown takes over. Anticipation is probably keener on the opposition benches than among Labour MPs, though.

Part of the problem is that although Mr Brown will do his best to surprise and delight, there is nothing

about him that could be described as fresh. A further concern is that he may not be well equipped to do much about what is rapidly turning into the biggest political threat facing the government—the impression, reinforced by the turmoil at the Home Office, that it lacks basic administrative competence.

The one thing Mr Brown and Mr Blair have in common is that they are both fairly hopeless managers who fail to understand the importance of process in making and executing policy. A weakness of the independent departmental capability reviews initiated by Sir Gus O'Donnell, the cabinet secretary—the first four of which were published last week—is their silence on the role of ministers in undermining good administration.

Filling the void, Sir John Bourn, the auditor-general, attacked ministers this week for "acting like chief executives looking only to boost their short-term share price". Sir John went on to single out for criticism Mr Brown's pet schemes—tax credits and pension credits. The former had created "chaos and confusion" because of a "failure of imagination and sociological competence", while the latter represented "a terrible waste of resources".

Unless the government can restore its reputation for competence, voters will punish it. That is why the scrapes of John Prescott are so damaging. Whenever the deputy prime minister pops up to bluster about the Stetson and cowboy boots thrust on him by Philip Anschutz, the billionaire who wants to turn the Millennium Dome into Britain's first super-casino, he reminds people that until recently he was running gigantic departments spending billions of pounds. And while Mr Blair chills out on holiday, this ludicrous character is left in charge of the country.

All of which adds to the perkiness of the Tories. But the biggest reason for renewed Conservative optimism is the belief that they now have a leader who just might be able to win them an election. In eight months David Cameron has proved himself a confident Commons performer, an accomplished interviewee who keeps his poise under the cosh of a Jeremy Paxman or a John Humphrys, and a disciplined strategist who has ruthlessly set about re-branding his party.

Brand values

To that end Mr Cameron's speeches, while short on specifics, send out the signal that every day and in every way the Tories are becoming kinder, gentler and more at ease with modern Britain. So far his MPs, normally a mutinous lot, have done little more than mutter to themselves about the rumness of some of his sayings. It probably helps that for the first time since 1992 the Tories have a consistent, if modest, lead in opinion polls. But whether Mr Cameron's bold marketing strategy can be reconciled with the beliefs and instincts of the party—beliefs and instincts that have lost it three elections on the trot—will only become apparent when he emerges from his self-imposed policy purdah next year.

It has been axiomatic that when the Conservatives are on the up, the Liberal Democrats must be on the way down. The shaky start made by Sir Menzies Campbell, their slightly doddery new leader, in the unforgiving arena of the Commons hasn't helped. But greater behind-the-scenes professionalism after the chaos left by Charles Kennedy and a stunning near-miss four weeks ago in the Bromley and Chislehurst by-election have boosted morale. Most of all, there is quiet excitement about the mounting prospects of a hung parliament after the next election.

One thing that MPs of all sorts can agree on is that competitive electoral politics has returned. The only question is when Mr Blair will remove himself and give it free rein.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The PC's 25th birthday

Getting personal

Jul 27th 2006
From The Economist print edition

It has had a glittering career. But are the PC's best days now behind it?

IBM

Get article background

"ENDLESS LOVE" by Diana Ross and Lionel Richie was at the top of the charts. Ronald Reagan was staring down the Soviet Union. And Princess Diana, aged 20, was on her honeymoon with Prince Charles. It was August 12th, 1981—and International Business Machines of Armonk, New York, unveiled the IBM 5150, its new entry in the nascent market for "personal computers".

This beige box, with a starting price of $1,565, had a mere 16 kilobytes of memory and used audio cassettes to load and save data. (A floppy-disk drive was optional.) IBM's press release trumpeted the screen's "green phosphor characters for reading comfort" and "easily-understood operation manuals" that made it "possible to begin using the computer within hours."

IBM's previous attempts to launch a PC had failed. But today, 25 years on, the IBM 5150 is recognised as the ancestor of the modern PC, a crucial step in computers' evolution from geek playthings to indispensable tools of modern business and, for many people, private life. Roughly one billion PCs are now in use across the world; many office workers spend more time with their PCs than they do asleep or with their families. But the PC's spread has been uneven: in America there are 70 PCs for every 100 people, compared with 35 in France, 7 in Brazil, and 3 in China.

The PC has created wealth on a massive scale. The combined stockmarket values of PC hardware and software firms exceed half a trillion dollars. Cheap computers have boosted the productivity of individual workers. And hundreds of millions of people have benefited from access to word-processing, spreadsheets, e-mail, file-sharing and cheap phone calls—to say nothing of the riches of the web.

The PC democratised computing by making computers cheaper and more accessible than the huge mainframes that came before. IBM's PC was less advanced than some other machines on the market. But it was backed by the most reputable name in computing. IBM did not release a product so much as unleash an industry.

The secret of my success

In many ways, the PC triumphed due to the very un-IBM way in which it was developed. When IBM's previous attempts at a PC failed to sell, being too expensive, a "skunk works" team of engineers was convened in Boca Raton, Florida. The team did not report through IBM's stifling bureaucracy, but directly to the top of the company. It was given a year to devise a low-cost machine. "The people doing that work weren't talking about it, there weren't any business cases done, there wasn't any annual budget review," explains Lewis Branscomb, IBM's chief scientist from 1972 to 1986. "IBM did a lot of radical things—and that proved to be very successful."

To meet its ambitious goals, the team bucked two IBM traditions. First, instead of using only IBM parts, the team chose off-the-shelf components. Second, rather than keep the design a secret, the team made the specifications open, so that independent software developers could flourish. When the PC finally launched, IBM expected to sell 250,000 units in five years. In the event, it had sold nearly 1m by 1985.

Yet the very factors that led to the PC's success inadvertently prevented IBM from reaping all the benefits itself. The PC used a microprocessor made by Intel and an operating system made by Microsoft (led by a 25-year-old called Bill Gates). Neither was exclusive to IBM, and within a year other companies had worked out how to make much cheaper "clones" of its PC. Microsoft and Intel, not IBM, turned out to be holding personal computing's crown jewels.

"This IBM project was a super-exciting, fun project," Mr Gates told *PC* magazine in 1982. Asked what the future would bring, Mr Gates was as blunt as he was prescient: "Hardware, in effect, will become a lot less interesting. The total job will be in the software." He was right. Today, society both benefits and suffers from the PC's flexibility and openness. The magic of the PC is that it is a general-purpose machine to which new functions can be added simply by installing a new piece of software. "The PC is a very fertile device," says Dan Bricklin, the inventor of VisiCalc, the first spreadsheet program. But this versatility comes at a price, since it makes the PC more complex, less secure and less reliable than a dedicated, single-purpose device.

As a result of these shortcomings, many technologies incubated on the PC are moving off it. Functions such as e-mail and voice-over-internet calling that were first rendered in software, just as Mr Gates predicted, are now mature enough to be rendered in hardware. As a result, the PC is no longer centre of the technological universe; today it is more likely to be just one of many devices orbiting the user. You can now do e-mail on a BlackBerry, plug your digital camera directly into your printer, and download music directly to your phone—all things that used to require a PC.

At the same time, the PC is under threat as the primary platform for which software is written, as software starts instead to be delivered over the internet. You can call up Google or eBay on any device with a web browser—not just a PC. People have been saying it for years, but this could finally allow much cheaper web terminals, or "network computers", to displace PCs, at least in some situations.

These shifts are affecting the big firms that grew up around the PC. Microsoft has moved into games consoles and set-top boxes, chiefly in case these other devices emerge as challengers to the PC as "hubs" for digital content. This week it confirmed that it will launch a digital music-player, called Zune, in response to Apple's successful march into non-PC markets with the iPod. As for PC-makers themselves, the falling prices and commoditisation that have so benefited consumers have turned them into low-margin box-shifters. IBM got out of the business in 2004, selling its PC division to Lenovo, a Chinese firm.

This does not mean the PC is dead. PC sales, at 200m a year, are at an all-time high. The PC's versatility means it will still be the platform on which new technologies tend to appear first. But with the rise of a plethora of other devices and the emergence of the web as a software platform, the PC now faces a struggle against its own technological offspring.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

PRINTABLE PAGE VIEW SPONSORED BY

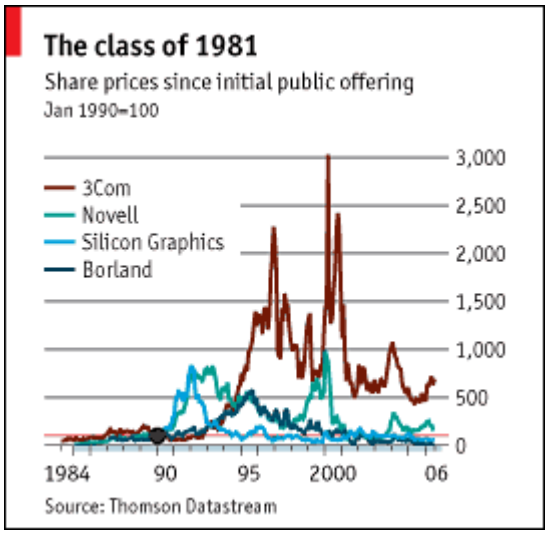
About sponsorship

Technology dinosaurs

Evolve or die

Jul 27th 2006
From The Economist print edition

Silicon Valley's former high-flyers face troubled times



THE personal computer spawned a new industry. But many of the firms that initially flourished in the PC era are now finding life difficult. Dell, the leading PC-maker, issued a profit warning last week that sent its share-price to a five-year low. Intel is trying to regain ground lost to AMD, its increasingly confident competitor. Microsoft has just announced that it will buy back 8% of its shares for around $20 billion—a sign that its high-growth days are behind it.

But none of these firms is in mortal danger. That is more than can be said for many of the smaller firms of a similar vintage to the PC. Novell's two top executives departed in June following a string of poor results. Silicon Graphics filed for Chapter 11 bankruptcy protection in May. 3Com replaced its boss earlier this year following lacklustre performance. Borland shed one-fifth of its workforce and is preparing to sell the best-known part of its business; this month its finance chief resigned.

All four firms are contemporaries of the IBM PC, the creatures of a distant era when only around 200 institutions were connected to the internet. Each had a bold vision of technology, but then failed to evolve as the very innovations they pioneered became commonplace.

Novell prospered by selling networking software to link up computers and enable group-working. Yet the firm failed to keep up with its rivals, chiefly Microsoft and IBM. It then shifted strategy and acquired an open-source software company in 2004, leaving users of its earlier products feeling neglected.

Silicon Graphics, founded in 1982, makes sophisticated computers for modelling things such as cars and aeroplanes. But as PCs became more powerful, the firm was wrongfooted by the shift to commoditised hardware: its last profitable year was 1999. (The firm has kept itself afloat by selling its lavish office buildings to Google, the technology industry's darling today.)

Similarly, 3Com, which makes computer-networking gear, floundered as such products turned into low-cost commodities. And Borland, which makes programming tools, was squeezed between industry giants on the one hand and free software on the other.

Companies that start off with a wildly successful product often fail to stay the course, explains Jim Collins, the author of "Built to Last". "If you have a great idea, it creates a false sense that you are stronger and more successful than you actually are," he says. Failure to evolve can then lead to extinction.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Nigeria's film industry

Nollywood dreams

Jul 27th 2006
From The Economist print edition

Nigerian films are so successful that the government wants to get involved

IT ALL started by accident in 1992, when Kenneth Nnebue, a Nigerian trader based in Onitsha, was trying to sell a large stock of blank videocassettes he had bought from Taiwan. He decided that they would sell better with something recorded on them, so he shot a film called "Living in Bondage" about a man who achieves power and wealth by killing his wife in a ritualistic murder, only to repent later when she haunts him. The film sold more than 750,000 copies, and prompted legions of imitators. Nollywood, as Nigeria's film industry is known, now makes over 2,000 low-budget films a year, about two-thirds of them in English. That is more than either Hollywood or India's Bollywood.

AFP

Who needs Hollywood?

Today, filmmaking employs about a million people in Nigeria, split equally between production and distribution, making it the country's biggest employer after agriculture, according to the National Film and Video Censors Board (NFVCB). The industry has sales of $200m-300m a year. There are lots of spin-off jobs on a film set, such as make-up, props and printing, as well as acting and producing, says Chike Maduekwe of Gemafrique, a film-promotion business in Lagos, and young people without a formal education can find a place. Nigerian films are still sold mainly on videocassette, not in cinemas, and are so cheap and widely available that even the poor in rural areas can watch.

Nollywood's appeal has reached far beyond Nigeria: its films are watched all over Africa, and beyond. In South Africa MultiChoice, a satellite-television business, offers a channel devoted to Nigerian films, and last week Zenithfilms, a British company which distributes Nigerian programming to airlines, said it would launch a new channel, called Nollywood Movies, on BSkyB, a British pay-television operator controlled by Rupert Murdoch.

So far, the industry has grown with little or no help from Nigeria's government. The films cost anywhere between $15,000 and $100,000 to make, and the money comes directly from the market. Producers, or "marketers", as they are known, use some of the profits from one film to pay for the next. Banks do not lend to Nollywood, as there are no statistics from which they could estimate likely returns. But Nigeria's president, Olusegun Obasanjo, has now appointed a panel to devise ways to intervene in the industry to help it grow further.

Oddly enough, the government worries that Nigeria's film industry reflects badly on the country. "When I travel abroad, people complain to me about the voodoo themes and the poor technical quality compared to Western movies," says Emeka Mba, director-general of the NFVCB. He wants to try to show filmmakers that the themes they choose can have a negative impact on Nigeria's image. Many Nigerian films involve witchcraft, or "juju", because marketers have found that it sells especially well. Plots often use black magic as a way to explain why a man has gone from being poor to a millionaire overnight, says Onookome Okome, associate professor of African literature and cinema at the University of Alberta. Such a theme resonates in a society with great inequality of wealth. And although Nigerian films usually do have low production values, their popularity shows that they make up for it with story telling.

Nollywood is divided over whether it wants help from the government. Some filmmakers fear that the industry's growth could slow if the authorities discourage popular voodoo storylines. But many filmmakers would like the authorities to start a fund to offer cheap loans for films. It should provide access to credit, but go no further, says Mr Maduekwe. Teco Benson, a well-known Nollywood director whose recent work includes "Six Demons", a horror film, also wants the government to organise a proper distribution system. The industry today sells its wares in three big cities—Lagos, Onitsha and Aba. Money from films sold in the rest of Nigeria mostly goes to pirates. About half of the industry's revenue is lost because of its poor distribution network, according to Emmanuel Ugo, a marketer in Onitsha.

The next stage is to try to show films in cinemas, as well as on videocassettes. By next year, says Mr Mba, there will be up to 50 modern new cinemas in Nigeria. He plans to give them financial incentives to show Nigerian films as well as foreign blockbusters. Government officials talk hopefully of Oscar awards, and a group of expatriate Nigerians set up the Nollywood Foundation in Los Angeles in February to try to establish links with Hollywood. Even if the government does more harm than good to the industry, it is unlikely to dent Nollywood's energy for long.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Health care

Big deal

Jul 27th 2006 | NEW YORK
From The Economist print edition

An American hospital chain goes private in a $33 billion buyout

THE steady flow of private-equity deals in America is fast becoming a torrent. In just the past few months, a dozen multi-billion dollar deals have been announced. The most prominent—involving Albertson's, a grocery chain, Kinder Morgan, an energy firm, and Univision, a Hispanic broadcast network—topped the $10 billion mark. But none compares with the deal unveiled this week, which could turn out to be the largest leveraged buyout in history.

Kohlberg Kravis Roberts (KKR) and Bain Capital, two legendary corporate raiders, joined with Merrill Lynch, a big investment bank keen to expand its private-equity arm, to announce a deal that might top even the famous KKR buyout of RJR Nabisco back in 1988. The trio offered $21 billion for HCA, America's largest hospital operator, and promised to take on the firm's debt burden of $11.7 billion. HCA runs 182 hospitals in two dozen states and has annual revenues of over $24 billion.

The deal is not yet a sure thing. HCA has 50 days to solicit higher offers. And as soon as the news of the deal broke, rumours swirled that a rival bid might come from Blackstone Group, which has just set up a giant private-equity fund topping $15 billion. But it will be difficult for rivals to better the existing bid. That is because HCA's founders—the Frist family, including Thomas Frist, the firm's former boss—are backing the bid from KKR and its allies with their own capital. Small wonder, then, that HCA's management has already agreed to the buyout. (Dr Frist's brother is Bill Frist, the Senate's majority leader and a probable Republican presidential candidate in 2008.)

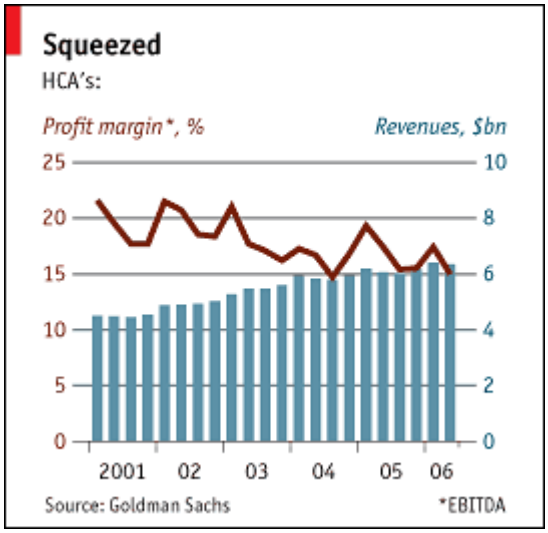
Does the deal make sense? HCA's shares have been cheap of late. Equity investors have been unimpressed by the firm's string of weak quarterly results, a trend that continued this week, when HCA reported profits in the second quarter of $295m, down from $405m during the same period a year ago. That might seem like bad news, but to a private-equity firm it sounds more like an opportunity. The share prices of health-care firms are at a cyclical low just as money is pouring into private-equity funds. HCA was, in fact, taken private in 1989 and "flipped" back to the equity markets within four years during a previous share-price yo-yo.

But look at the deal in the light of trends in the health-care business, and it appears much riskier—for it is hard to see how HCA's new owners will be able either to increase revenues or cut costs. Paul Mango of McKinsey, a management consultancy, notes that hospital operators are not free to charge what they like. About half of their payments come from the government, which is fighting to contain costs. HCA and its peers could be hit hard if politicians ever get round to reforming America's health-care system.

And even if revenues do go up, profits may not follow. Christopher McFadden of Goldman Sachs, an investment bank, points out that HCA has had its margins squeezed even as revenues have grown (see chart). That is because costs at America's hospitals are soaring: they increased by 48% between 1997 and 2005, according to Solucient, a research firm. Kaveh Safavi of Solucient says this is not primarily because of higher drug prices, but the result of more expensive medical devices and higher salaries. Another factor is bad debts associated with uninsured patients; these have increased to almost 18% of revenues in 2005 at publicly traded hospital groups such as HCA, from less than 12% in 2003.

Trimming expenses will be equally difficult. HCA has already

been through two painful rounds of cost-cutting in recent years. Installing ruthless new managers is not on the agenda: Michael Michelson of KKR declared this week that "our investment thesis is not based on any kind of cost-cutting." Stephen Pagliuca of Bain Capital argues that "private equity is very patient capital." Rather than a quick flip, it seems the investors plan to keep HCA for five to ten years. Mr Pagliuca says his team intends to inject $7.5 billion in fresh capital into the firm.



Perhaps this strategy will somehow be enough to provide the handsome returns expected by the new owners. Or perhaps, whisper some observers, this deal is really a bet on something else: politics. As long as Congress does not make any drastic moves to reform health care in ways that squeeze hospitals, HCA is well placed to ride out the downturn in hospital share-prices. Such an outcome is most likely if the Republican Party retains control of Congress. It would certainly not hurt to have a Frist running the Senate—or even, perhaps, in the White House.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Marketing on MySpace

ForBiddeN fruit

Jul 27th 2006 | NEW YORK
From The Economist print edition

Big business tries to make friends and influence people online

THE internet sensation that is MySpace continues to grow at an astonishing rate. The social-networking site had 17m unique monthly visitors last July, when Rupert Murdoch recast himself as an internet visionary by buying it for $580m; now it has 54m, and is the most visited website in America. Even if, judging by recent headlines, many visitors are prowling paedophiles or panicking parents spying on their sex-crazed children, at least some of them are the valuable youngsters to which many big firms yearn to sell things.

MySpace seems to offer a chance for companies to take their marketing into new, potentially more lucrative territory, by becoming, in effect, members of their customers' network of "friends". A growing number of firms have established their own pages on MySpace, to which users can link. In the process, some are getting into bed with some unlikely partners. Earlier this year, for example, Unilever, a consumer-goods giant, hooked up with Christine Dolce to promote Axe, a deodorant. Ms Dolce, who goes by the alias ForBiddeN, boasts around 900,000 "friends" who link to her MySpace page. Bleached, buxom and with impressive marketing savvy, she is arguably the most successful brand to emerge from MySpace, and has already launched a line of clothing.

That made her perfect, Unilever concluded, to draw in the 18- to 24-year-old lustful lads to whom Axe is shamelessly marketed. So Ms Dolce hosted an interactive game, called "Gamekillers", based around dating tips and designed subtly to promote Axe. Some 75,000 MySpacers signed up for it.

The biggest challenge—for MySpace itself, and for the firms that want to use it to promote their wares—is not to alienate potential customers by being overtly commercial. "We need to be engaging with them, not banging them over the head with brandalism that pollutes their space," says Kevin George of Unilever. But, he says, "when you deliver 18- to 24-year-old guys content they want to engage with, they don't mind if it comes from a brand." This theory will now be put to the test, as MySpacers' attention is fought over by brands including Procter & Gamble's Old Spice, State Farm insurance, Elexa by Trojan female condoms, and the US Marine Corps.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Pachinko

Rules of the game

Jul 27th 2006 | TOKYO
From The Economist print edition

The Japanese authorities attempt to clean up the pachinko business

Reuters

WHEN a new gaming machine came out this month, Japan's pachinko parlours were jammed. Fanatics queued up before the parlours opened to be sure of being able to play the latest *Hokuto-no-ken* ("North-star Fist") game. Made by Sega Sammy Holdings, the largest producer of pachinko slot-machines, the game is based on a popular manga comic-book series about a hero with deadly martial-arts skills in a post-apocalyptic world.

Pachinko remains one of Japan's favourite pastimes, even though pachinko parlours are considered rather seedy, the number of players has fallen by nearly half (from 29m to 18m) in the past decade and the industry operates in a legal grey area. According to the National Police Agency, which oversees the industry, the Japanese collectively spend some ¥30 trillion ($260 billion) a year playing pachinko and its upstart cousin, pachislot—roughly equal to spending on health care. Borrowing money to play pachislot is thought to account for almost half of consumer debt.

The huge popularity of *Hokuto-no-ken*, a pachislot game, illustrates several trends that are now reshaping the pachinko industry. The first is the shift from traditional pachinko, which resembles a vertical form of pinball, to more modern pachislot machines, which can incorporate high-tech graphics, slot-machine features and larger potential payouts based on "accumulating jackpots". Pachislot took off when changes to the industry's regulations granted manufacturers more flexibility in the design of machines. It now accounts for about two-thirds of machines in a typical parlour.

Although pachislot has halted the industry's decline, its much larger jackpots—in some cases, worth as much as ¥1m ($8,700)—increased concerns over the way in which pachinko parlours side-step Japan's strict gambling laws. Casino-type gambling is illegal in Japan, so parlours give non-cash prizes to winners. But there is invariably a shop across the road where winners can trade their prizes for cash. Since the police cannot do anything to stop such transactions, strict new rules were introduced in July 2004, reducing the maximum size of pachislot jackpots by 80%. But the regulations have taken a long time to implement because pachinko and pachislot machines must be relicensed only every three years—so the big jackpots will survive until July 2007. Thereafter, the hope is that pachislot will revert to being more about entertainment than gambling.

There are other reasons for the crackdown. Sometimes pachislot machines are illegally modified so that they pay out a smaller number of larger jackpots in order to draw players in. Every summer a dozen or so babies die after being left in hot cars while their parents play pachinko. And many parlours are run by Japanese Koreans, some of whom are said to evade taxes and divert funds to North Korea.

It is unclear whether the strict new rules will help the industry or harm it. Limiting the size of jackpots could make pachislot cheaper to play and improve its image, attracting more business. But it might put people off. And if the industry shrinks, so will the tax revenues paid to the government. Given Japan's huge budget deficit, that could prompt a rethink. A subcommittee within the ruling Liberal Democratic Party is already working on a law to legalise gambling, though it is still in its infancy. Lawmakers may yet conclude that maintaining tax revenues is more important than trying to discourage gambling.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Franco-Italian business axis

The odd couple

Jul 27th 2006 | PARIS
From The Economist print edition

Ties between French and Italian firms are close—but they can be confrontational

AFP

Juventus sends on a Frenchman

WHEN Zinédine Zidane, captain of the French football team, head-butted Marco Materazzi during the World Cup final, Mr Materazzi did what Italians often do in clashes with the French. He fell down and complained, loudly. Mr Zidane was sent off and his team was defeated. But when it comes to confrontations between France and Italy in the world of business, Italians often grumble that their complaints are ignored—and that they lose out to the stronger, more aggressive French.

They are still sulking about the planned merger of Gaz de France, a gas giant, and Suez, a French utility, brokered by the French government a few months ago to pre-empt a hostile bid for Suez by Enel, a big Italian electricity firm. After months of bickering over investment restrictions, Electricité de France and AEM, Milan's municipal electricity company, were allowed to buy Edison, Italy's second-biggest electricity firm, last spring. Italy has thus opened its energy industry to French investors, but France is not reciprocating.

Yet despite such complaints, the reality is that the two countries are close business partners. Just this week, for example, Gerardo Braggiotti, the boss of Banca Leonardo and one of Europe's most influential investment bankers, announced the acquisition of a 34% stake in DNCA, a Paris-based asset manager. This follows Banca Leonardo's takeover, earlier this month, of Toulouse & Associés, a French financial boutique. And this week Crédit Agricole, France's second-biggest bank by assets, and Fiat, Italy's flagship carmaker, launched Fiat Auto Financial Services, a car-financing venture.

Similarly, Juventus, one of Italy's top football clubs, has asked Jean-Claude Blanc, a Frenchman who used to run Roland Garros, a tennis tournament, to take over as chief executive to sort out the mess following its involvement in a big corruption scandal. The club, one of four accused of match-rigging, has also appointed another Frenchman, Didier Deschamps (pictured), as its new coach.

Carrefour and Auchan, two French supermarket chains, each control almost 10% of the Italian market. Auchan's scale is the result of its purchase of the food arm of La Rinascente, a chain of Italian department stores, in 2004. Last month La Rinascente's Maurizio Borletti and other investors took over Printemps, a department-store chain, from PPR, a French retail and luxury-goods conglomerate. PPR is keen to focus more on high-margin luxury goods, and is on the prowl for a fashion firm or handbag-maker—in Italy.

Although Germany is the biggest trading partner of both France and Italy by a large margin, each is an important trading partner of the other. As it happens, their trade is balanced: last year French imports from Italy totalled €3.7 billion ($41.9 billion), and Italian imports from France were €32.3 billion. But their relationship is not one of equals, because the French occupy a much bigger role in Italian companies than Italians do in France, says William McGurn, an American lawyer at Cleary Gottlieb Steen & Hamilton in Rome. The French are an important presence in Italian banking and insurance, two of the country's most lucrative industries. In February BNP Paribas, France's biggest bank, bought Banca Nazionale del Lavoro, Italy's sixth-biggest bank. Crédit Agricole holds an 18% stake in Banca Intesa, the biggest bank within Italy. Yet Italians play hardly any role in French financial services, or in any other industry.

This reflects one of the Italian economy's biggest weaknesses. The vast majority of Italian companies are small, often family-owned firms that lack the resources to invest abroad. Big Italian firms have mostly

tended to focus on the domestic market, until recently. French firms, in contrast, have been making foreign investments for many years. Another cause of asymmetry is the French government's interventionism, which tends to keep foreigners away. The government will be especially assertive in the run-up to next year's presidential elections, since protectionist policies win votes. This will give Italians even more reasons to complain.

Meanwhile, preparations for the construction of the Lyon-Turin high-speed railway provide plenty of opportunities to argue over funding, delays and environmental concerns. The project encapsulates relations between the two countries: the Italians will grumble, the French will make it happen, but both sides will ultimately benefit from the connection.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Face value

Booming Mr Boeing

Jul 27th 2006
From The Economist print edition

James McNerney is putting Boeing's house in order after a series of scandals

Landov

HE CERTAINLY took his time accepting the job. In late 2003 Boeing lost its chairman and chief executive, Phil Condit, along with his probable successor, in a scandal over some Pentagon contracts. James McNerney, who sat on Boeing's board and was a former boss of the aero-engine business of General Electric, was an obvious candidate to fill Mr Condit's large shoes. But he wasn't ready. Having lost out in the bitter race to succeed Jack Welch for what must count as the most prestigious job in American business, Mr McNerney had decided to move on in 2001 to 3M, a large technology company, which he had begun to lead out of a rough patch.

So Boeing sought to plug the gap by hauling Harry Stonecipher, an industry veteran who had previously acted as the company's president and chief operating officer, out of retirement. But in early 2005 he, too, found himself mired in scandal: his relationship with a senior female colleague surfaced publicly in e-mails so embarrassing that it cost him his job. With a caretaker installed as interim chief executive, Lew Platt, the respected former boss of Hewlett-Packard and a Boeing board member, was given the job of finding a permanent replacement. It seemed to take for ever.

Mr Platt was quickly on the telephone to Mr McNerney, who again demurred, feeling that his turnaround job at 3M was not complete. But Mr Platt persisted, taking an unusually long time to get his man. He felt he had made a mistake by hiring the flashy, controversial Carly Fiorina as his successor at HP, and that he had to do a better job of choosing the right person to run Boeing. During the Paris air show last year, he telephoned Mr McNerney one more time, and found that he was at last coming round to the idea. "I came to the conclusion that my task at 3M was largely done after five years—the company was back on track," Mr McNerney recalls. "Most of all, I realised that this was the job I really wanted to do next."

You can hardly fault his sense of timing. When Mr McNerney arrived last July, Boeing's battered commercial aircraft business was already bouncing back strongly after some difficult years. Its efforts to launch an updated version of the venerable 747 had gone down badly with airlines. When Boeing tried to distract attention from this flop by announcing a near-supersonic long-haul jet dubbed the Sonic Cruiser, it fell even flatter on its face. By the end of 2002 the aircraft was being called the Chronic Loser, and Boeing had to withdraw the idea, despite the positive publicity it had generated.

But the episode taught Boeing how deeply the airlines cared for economy rather than speed, in the aftermath of the industry crisis that coincided with the terrorist attacks of September 2001. So Boeing applied the same technologies, including lightweight composite materials, in pursuit of lower costs, rather than higher speeds. The resulting aircraft, the Boeing 787, is a runaway success with over 360 orders already. This year Boeing will recover the lead in the civil-jet market it lost to Airbus back in 2001, outselling its European rival by three to one. Airbus is still struggling to respond to Boeing's comeback.

It might seem, then, that there was little for Mr McNerney to do. When he arrived, Boeing was climbing fast and he might have been tempted merely to engage the autopilot. But Boeing's outward success concealed lingering problems. The quarterly loss reported by the company this week, its first in three years, is the result of a $1.1 billion one-off charge to cover a global settlement of various disputes with the Pentagon and delays in delivering surveillance aircraft to Turkey and Australia. The Pentagon problems ranged from dodgy procurement deals to cases where Boeing staff were accused of using industrial espionage to win contracts from rivals such as Lockheed Martin. Boeing executives fear that there could be further fall out from such scandals, as the firm has to retender for contracts it thought it had already won.

Stopping the rot

Mr McNerney quickly concluded last summer that, although Boeing's commercial business was rebounding, there were problems with defence, due not to a lack of immediate revenues or profits, but stemming from its relations with its biggest customer, America's defence department. As he explains it, the top-level turmoil had affected Boeing's people and dented their faith in their employer—and this came across in their dealings with the company's customers.

"Self-doubt had crept in," he says. "I realised that we had to get the issue out and talk about it." A frequent speaker at the company's management centre, modelled on GE's, he worked out with the bosses of Boeing's main businesses exactly what was required of its leaders. The list covers such things as "ability to chart a course", "setting high expectations for self and staff", "ability to inspire others and deliver results" and so on. Trite as this may sound, Mr McNerney thinks that clarity about corporate culture has proven central to the success of companies such as GE and 3M (though the latter firm has run into trouble in recent weeks under the leadership of George Buckley, Mr McNerney's successor).

Some Boeing managers find their new boss rather cold in his manner, a marked contrast to the robust, outgoing personalities of his accident-prone predecessors. He is, it is true, every inch a GE man—calm, focused and exuding an air of managerial professionalism, as you would expect from a veteran of the world's most respected company. His task is to use the best aspects of Boeing's culture to purge the firm of the ethical weaknesses that have plagued its defence businesses. And the moment to do so, he knows, is now. As John F. Kennedy liked to say, the time to mend the roof is when the sun is shining.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

World trade

In the twilight of Doha

Jul 27th 2006 | WASHINGTON, DC
From The Economist print edition

The global trade talks have collapsed because the world's biggest economies prefer failure to compromise. What comes next?

Getty Images

Get article background

AT LAST it is official. After stumbling on for months, the Doha trade talks have collapsed. On July 24th, at the end of yet another futile gathering of trade ministers in Geneva, Pascal Lamy, the World Trade Organisation's director general, formally suspended the negotiations. He set no date for their resumption. As Kamal Nath, India's trade minister put it, the Doha round "is definitely between intensive care and the crematorium."

Launched in the Qatari capital in 2001, soon after the terrorist attacks on New York and Washington, DC, the Doha round was to be an "ambitious" effort to make globalisation more inclusive and help the world's poor, particularly by slashing barriers and subsidies in farming, the rich-world's most molly-coddled industry.

For almost five years, negotiators haggled over just what such an "ambitious" effort should look like—and made scant progress. Technically there was nothing inevitable about this week's collapse. Yet, despite their grand rhetoric, the world's big economies have long appeared unwilling to make the political compromises that a Doha deal requires.

The big question is what happens next? Previous trade rounds have stumbled, only to rise again a few years later. In 1990 the Uruguay round (predecessor to the Doha talks) was suspended thanks to seemingly insoluble differences between Washington and Brussels over Europe's farm subsidies. Trade experts declared the trade talks dead and fretted about the future of the multilateral system. But three years later came the Uruguay Agreement—the most ambitious and comprehensive trade deal to date.

Judging whether Geneva 2006 is a replay of Brussels 1990 means answering two questions: why will today's negotiators not compromise? And what, if anything, could change their mind?

The fault lines in the Doha round are deep. America wants to slash tariffs, arguing (rightly) that the best

way to help poor countries is through more open markets. Since America's tariffs are already low, that puts the onus on the European Union (EU) to cut farm tariffs and on big emerging economies to reduce barriers on farm goods and industrial products. Emerging economies, in contrast, want fewer farm subsidies and lower tariffs in rich countries, but are loth to reduce their own barriers much. Countries such as India argue that in a pro-poor Doha round they need do little. The EU chides America both for demanding unrealistically large tariff cuts from others and for offering too little farm-subsidy reform of its own.

In principle, a compromise was there for the taking. Indeed, Mr Lamy has informally laid out its contours: more subsidy cuts than America has offered and more ambitious tariff cuts by the EU and big emerging economies. So why has nothing happened? One reason is genuine differences over whether the interests of poor people are best served by lower tariffs or more special protection. But the explanation lies chiefly in the failure of countries to face down their own powerful protectionist lobbies, particularly farmers.

Deal or no deal

Curiously, this political cowardice has pushed negotiators in opposite directions. Europe and the big emerging economies are inclined towards a timid deal. America wants a big Doha deal, where its farmers see real gains in their access to foreign markets, or no deal at all.

The tension between these approaches was the immediate cause of this week's collapse. Susan Schwab, America's trade representative, decided that the EU and the emerging economies were not offering enough liberalisation to justify big cuts in America's farm subsidies. "Doha lite" as Ms Schwab put it, was riddled with loopholes and not worth having. This is why America has received much of the blame for Doha's demise. But at home, Ms Schwab's hard line was hailed. Virtually everyone in Washington agrees that no Doha deal was better than a weak deal.

America may be exaggerating. By most calculations, the kind of compromise Mr Lamy envisaged would have brought real, albeit modest, reductions in rich countries' farm barriers and big emerging economies' industrial tariffs. What is more, rich countries promised to give the poorest duty- and quota-free access for most goods. Rich and poor were working on rules to streamline customs procedures so that it no longer takes 20 days to unload and clear a container in Eritrea compared with two hours in Liverpool. Trade in services might have been freed a bit. Because global trade talks work on the principle that nothing is agreed until everything is agreed, these gains are all at risk.

Nothing will change until the big economies, and Washington in particular, decide that a Doha deal is worth having. The lesson of the Uruguay round is that domestic calculations can change quickly. Carla Hills, then America's top trade negotiator, said she would rather see the Uruguay round fail than cave in to Europe's refusal to take on its farmers. Yet three years later, that round was concluded as all sides compromised.

Optimists argue that much the same will happen again. As Jeffrey Schott of the Institute for International Economics puts it, leaders need to "stew in their own juices" until they realise that a Doha deal is worth doing. Some argue a turnaround could come quickly. Jagdish Bhagwati, a prominent trade expert, still hopes that George Bush will realise within weeks that a Doha compromise is better than no deal at all. "He needs a multilateralist triumph," argues Mr Bhagwati.

Unfortunately, there are several reasons for pessimism. In 1990 the only obstacle to a deal was the deadlock between Brussels and Washington. Today, several other big economies, including Brazil, India and China, also need to be on board. India, in particular, shows remarkably little interest in doing a Doha deal.

The political landscape in America is less hospitable today, too. This week's collapse means the administration cannot get a Doha agreement through Congress before June next year, the date for the expiry of George Bush's trade-promotion authority—which prevents the deal from being destroyed by legislators' amendments. Although some in the White House want him to ask Congress for an extension, Mr Bush may be unwilling to take on a political fight he may not win. America's lawmakers are more sceptical of trade deals these days. Trade-promotion authority—and by extension a Doha deal—will probably have to wait until after the 2008 presidential election.

America's political calculus could yet change if the real costs of a Doha failure became clear. In the short term, however, that seems unlikely. Although, Doha's failure makes rich-country promises to help the

poorest sound hollow, the rich could salvage some credibility. Peter Mandelson, Europe's top negotiator, has already suggested a separate development package for the poorest, which would include trade-related aid as well as promises on duty- and quota-free access to rich markets.

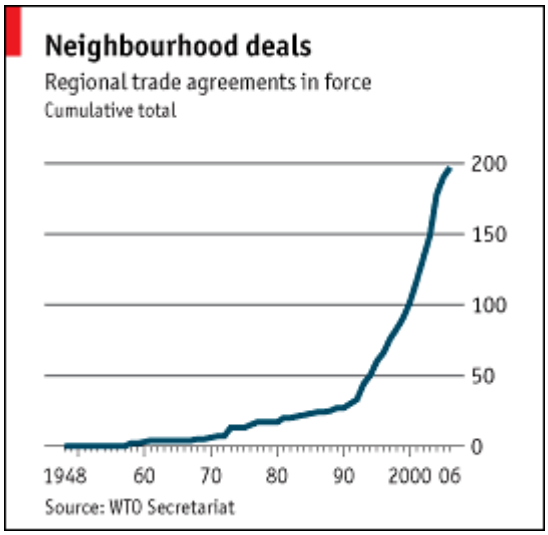
Moreover, America's farm bill is to be reauthorised next year. With Doha in abeyance, farm-friendly lawmakers will do little to cut subsidies and Mr Bush will do little to force them. Another fat farm bill will make it even harder to restart the Doha talks.

In the years ahead other things may revive Doha—although they might equally poison the trade system still further. Some analysts argue that this week's breakdown will bring a mass of trade disputes, particularly over rich countries' farm subsidies. The WTO has already declared many of America's cotton subsidies to be illegal. Future cases might attack subsidies for rice and soyabeans. The disputes could convince politicians that farm trade really needs reform. Then again, it might make America's Congress even more sceptical of multilateral trade.

A bleaker economic climate could also change the political equation. In the early 1990s a recession focused minds on the importance of getting the Uruguay round done. Today, the thriving world economy has bred complacency. Trade has grown briskly and many types of protectionism have waned. The number of new anti-dumping cases, for instance, has fallen sharply in the past couple of years. If the economy slows, tariffs—and the risk of trade spats—may rise. Slower growth will make it harder to take on special interests, such as farmers. A global slowdown will also raise countries' fear of Chinese competition. And that fear may make a Doha deal less likely.

In America, where Sino phobia is strongest, many politicians equate China's entry into the WTO with the beginning of America's "problems" with Chinese trade. In emerging economies the fear of China already lies behind a reluctance to cut multilateral tariffs. Many countries, including India, Egypt and Nigeria have been unilaterally slashing tariffs, even as they refuse to offer big tariff cuts in the Doha round. The reason is that Doha commitments are irrevocable and they want to keep the ability to raise tariffs, partly for fear of China.

The most likely route to a reinvigorated Doha is the failure of an alternative—a greater focus on regionalism. Regional and bilateral trade deals have mushroomed (see chart). All but one WTO member, Mongolia, is now involved in some sort of preferential trade deal.



America is often touted as a champion of regionalism. The Bush administration has signed 14 free-trade deals and is negotiating another 11. Many people assume America would lose little from Doha's demise, in part because it could wield power in regional deals.

Yet the opposite may prove true. Without trade-promotion authority, the president will find it difficult to negotiate bilateral, regional or multilateral deals. The ability to push a regional agenda could be stymied just as others step up the pace. The EU has made no secret that its Plan B after Doha's demise is a shift towards bilateral deals, particularly in Asia.

Within Asia, the number of trade deals is exploding. The ten ASEAN countries have bilateral deals with each other; all have, in effect, individual bilateral deals with China. Others are being negotiated with India, South Korea and, in several cases, Japan. By one estimate, East Asia alone will have around 70 free-trade deals by the end of 2006.

This noodle bowl of Asian regionalism could be the catalyst for restarting the Doha round. As Richard Baldwin, an expert on regionalism at the Graduate Institute of International Studies in Geneva, has pointed out, Asian-style regionalism may prove more pernicious than other regional deals. The sheer number of agreements, all of which cover slightly different products and contain different rules, will dramatically complicate logistics in a region that epitomises the global trend towards decentralised production.

As these agreements gradually reduce bilateral tariffs, Asia will be riven by trade discrimination between different countries. That may push nations back to the Doha table. None more so than America,

especially if it is left out of the regional rush. But how far must Asian regionalism go and how much damage will be done before the multilateral trading system can put this week's disaster behind it?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

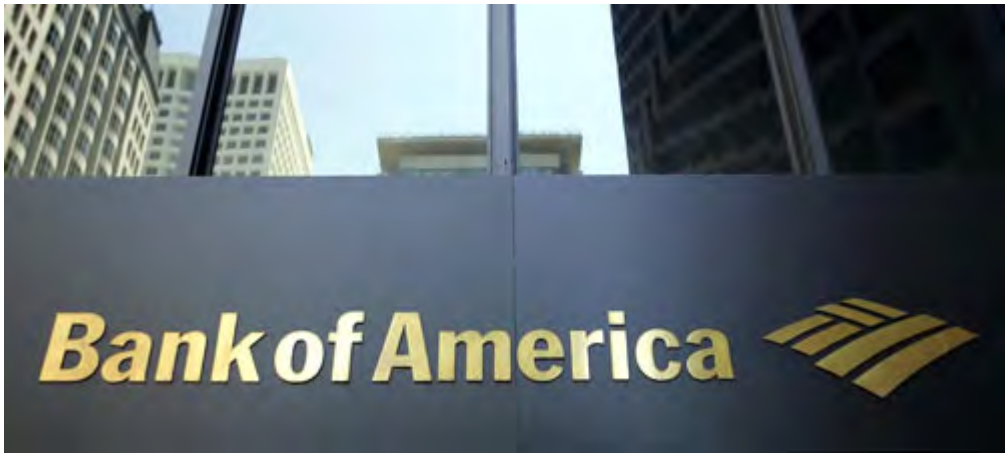
About sponsorship

Bank of America

The new number one

Jul 27th 2006 | CHARLOTTE
From The Economist print edition

AP



A 40-year strategy comes to fruition. Now Bank of America must find a new one

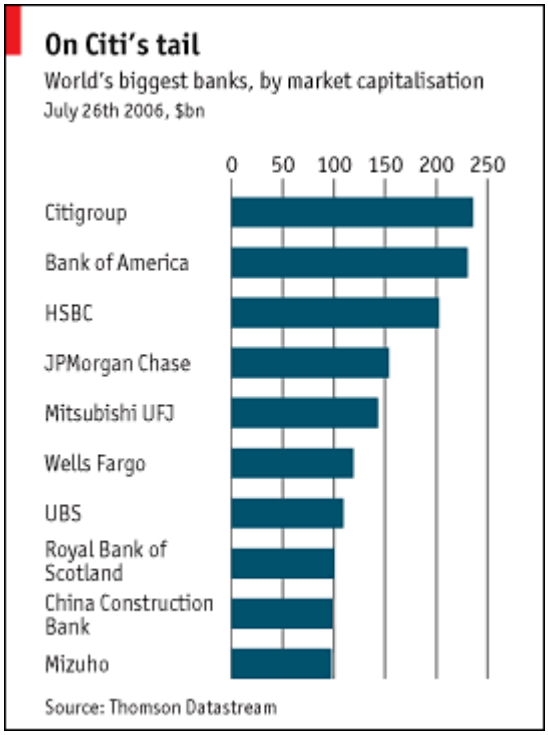
SENIOR employees of Bank of America (BofA) packed into the auditorium at the company's headquarters in Charlotte on July 20th. They had gathered to hear Kenneth Lewis, the chief executive, deliver a long-awaited message: thanks to BofA's earnings of $5.5 billion in the second quarter, they now worked for the most profitable financial institution in the world. To cheers, he added: "It was nothing personal; Citi just got in the way."

"Citi", of course, is Citigroup. For BofA, passing Citigroup's profit number is a joy to be topped only when it has the greatest stockmarket value, too. A year ago that would have been laughable: the gap exceeded $40 billion. Today it is merely $4 billion (see chart).

Mr Lewis could always take the top spot by promising never to make another dilutive acquisition. He won't, but BofA may reach the summit anyway. Citigroup, it is true, has more revenue. It also has better prospects for growth, because it is present in many immature markets. Yet its growth has stalled since a series of scandals brought close regulatory scrutiny, discouraged acquisitions and rattled management. BofA has hardly been unscathed by regulators, but it has not been hurt anything like as much. A scandal over mutual funds began with its dealings with a hedge fund, and it has been sued for its role in the financing of Parmalat, Enron and Adelphia, but all this has had little effect on its overall business.

From a distance, Citigroup and BofA are similar creatures. Both have grown to huge size through acquisitions. Both make about one-third of their profit from their corporate banks and most of the rest from consumers. Both have big shares of the credit-card market. Still, they are different animals on closer inspection. Citigroup sells complex investment products and has a big investment bank, operations in lots of countries and a tiny domestic retail franchise concentrated in three states, California, New York and Texas. It is not clear how these

various bits fit together.



Bank of America, in contrast, lives up to its name. It makes almost all its money at home. Its sprawling branch network covers most of the heavily populated states. It has a vast banking business serving individuals and small firms, and a big share of the loan-syndication market. Much of what it does can be standardised and BofA goes to great lengths to discourage the kind of individualism that can produce great rewards but add huge risks.

In BofA, critics see a dull, if powerful, beast lumbering forward. Annual revenue growth per share has averaged only 6% in the past decade, notes Tom Brown, of Second Curve Capital, a hedge fund, and a long-standing critic. Institutions such as Downey Financial, in California, Flagstar Bank, in Michigan, and New York Community Bancorp have been growing at 17%.

All these banks are fairly small and have a narrow range of products: all relied heavily on mortgages in a strong housing market. BofA's defenders, notably its own management, contend that it has a uniquely strong and diversified franchise (at least in America) and that it is just beginning to exploit its reach, without depending on any one product.

It is not clear who has the better of this argument. According to SNL Financial, a research firm, big banks are making higher returns on equity than smaller ones. Among the biggest, BofA's are higher than most, though not as high as those of US Bancorp, Wells Fargo or (yes) Citigroup. The large banks, though, suffer from lower price/earnings ratios than smaller ones. That could be because the smaller banks carry a takeover premium; or it could be that the market doubts that large banks' profitability can be sustained.

A history of big bets

Being seen as a big, stodgy bank—even, you might say, something like a utility—is a novelty for BofA. Not long ago, it was anything but dull, expanding at an astronomical rate through one big deal after another.

Back in 1969 when Mr Lewis joined what was then known as North Carolina National Bank, it was not even among the largest institutions in North Carolina. The "national" in its headline was a regulatory nuance rather than a description. It had no branches outside the state.

Then it grew and grew. It is said that BofA has made more money for investors than any other company in the world (in second place is its Charlotte rival, now known as Wachovia). However, most of this money was made not by its own shareholders but by those of the banks it scooped up after rules blocking interstate banking were relaxed in the 1980s. Under one name or another, BofA was responsible for too many deals to count, from the purchase of First National Bank of Lake City, Florida (in 1982, for $6m) to those of Bank of America, then the name of a Californian institution (1998, $65 billion), and FleetBoston (2004, $48 billion).

Today's bank is, by its own reckoning, the product of 3,000 combinations. That Mr Lewis's institution was the survivor was a twist of fate; that the survivor came from a southern state was not. As the interstate bans were relaxed, southern regulators and banks worked together to ensure that big hunters from New York and California, among others, could not buy until local institutions had bulked up.

With the purchase of FleetBoston, the largest bank in New England, this strategy has run its course. Federal rules ban any bank from acquiring another if its market share of deposits is over 10%. BofA is now over the limit and may now expand only by growing internally. Others, though, will be buying. America is crawling with banks and they are perpetually consolidating. Mr Lewis forecasts that within five years there will be one or two more that are national, but for the first time, he is out of the market.

Branching out

Where, then, will Bank of America find growth? There are some obvious guesses. Mr Lewis predicts that one or two big investment banks will be swallowed. Will BofA buy? He isn't saying. But one of the bank's maxims is that it has to be a big fish in a business, or not in it at all. It is certainly no giant in investment banking now. If it bought, it would have to integrate its purchase well, and its record is not good. BofA's investment-banking acquisitions of Robertson Stephens and Montgomery, two boutiques, were disastrous.

Another option is to look abroad. Having adhered to its maxim, the bank has little to build on. It dumped lots of small foreign businesses, picked up in the course of acquisitions. Joining forces with HSBC, which has big businesses in many places, may make sense on paper, but whether the two could work together is open to question. And BofA could not export its model of saturation coverage.

That leaves internal growth. The history of companies putting a long career of acquisition behind them is hardly encouraging. Citigroup is a case in point. After years of strong growth fuelled by its own buying binge, Citigroup has not yet learned to grow on its own.

In theory, BofA is well placed to exploit its size. It has a national franchise in a country where people are always on the move. Open an account in one state and there is no need to change banks if you cross the country—given the hassle, there is every reason not to. BofA's website has been an enormous hit, with 20m customers paying bills online.

A huge bank is a huge receptacle for cash. True, Americans are less likely these days to keep their savings in the bank, preferring money-market funds. But more than ever, they need bank accounts for transactions and BofA attracts loads of deposits, paying next to nothing in interest. Through its credit cards and accounts, encompassing 54m households and small businesses, the bank enjoys unusually good insight into America's financial trends and thus has excellent, proprietary information that it can use to invest the money it has on hand.

All of this could lead to superior returns. Could. Like Citigroup, BofA must be aware that in banking, scale brings problems as well as profits. There is evidence that beyond a certain point scale is counter-productive. Outsiders will cheer too if BofA gets not merely bigger, but better.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Property funds in Japan

Space race

Jul 27th 2006 | TOKYO
From The Economist print edition

The difficulty of regulating Japan's booming property funds

THIS week an unwelcome record was set by Orix Asset Management, part of Orix, a Japanese financial-services company. In starting a three-month ban on signing new property deals, it became the first asset-management company specialising in real-estate investment trusts (REITs) to be punished by the Financial Services Agency (FSA), Japan's financial regulator. The firm's offences included overpricing properties, by taking a seller's valuation at face value, and failing to check whether the buildings that it bought had been constructed legally.

The FSA may be cracking down, but Japan's booming REIT market still has plenty of room for funny business—in particular, insider dealing. There are now 50 trusts, of which 33 are listed, plus 500 or so private-equity companies specialising in property. The total value of all these funds' portfolios is thought to exceed ¥10 trillion ($87 billion) and is growing apace. The listed REIT market has grown 17-fold since January 2002 (see chart), according to STB Research Institute.

The most curious episode so far has concerned the share price of Tokyu REIT, a listed trust. In March its share price leapt by almost ¥50,000 in two days, to ¥906,000, just before it announced the sale of a building in Yokohama for around ¥6 billion. Both the authorities and the media wondered whether insider dealing had been going on. Yet neither the FSA nor the Securities and Exchange Surveillance Commission (SESC), the part of the agency that oversees securities markets, would have been able to punish offenders, had they found any, because the law empowers neither to do so.

This is unlikely to change for a while. Hiroshi Okada, deputy director for market regulations at the FSA, says that the agency is busy implementing a new law that gives it more power to deal with jiggery-pokery in other corners of financial services. A law to punish insider trading exists for equities, but is not even planned for REITs. Still, the authorities can at least penalise REITs for other offences, as Orix Asset Management has found. And by next July, the private-equity property funds will come under the aegis of the SESC, lightening the FSA's load. For the moment, they are overseen by the FSA's banking division, which has already punished two trust banks for dodgy property deals.

Investors are attracted to property by the gap between rental yields, around 3.5%, and long-term bond yields, now around 1.8%. Specialist private-equity funds, which lace investors' money with far more borrowing than the average REIT, offer even higher returns. REITs have helped raise prices in sought-after areas in big cities, although property prices nationwide are still falling.

In these hot spots, new construction is largely speculative, rather than to meet certain demand. That parts of the property market are becoming bubbly was underlined earlier this month when Morgan Stanley Real Estate Funds sold what is known as "the warship building" in central Tokyo to DaVinci Advisors, another property-management group, for ¥143 billion, the highest price ever paid for a single property in Japan.

These days most deals are struck between REITs and their private counterparts, as the supply of new property is failing to keep up with investment demand. In a whirl of transactions, the risk of sharp

practice, including insider dealing, may well grow. What a pity that the FSA and the SESC lack the resources and the powers to combat it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Property funds in Germany

Blood, sweat and REITs

Jul 27th 2006 | FRANKFURT
From The Economist print edition

Lawmakers think they have a working model

A HANDFUL of bankers and bureaucrats, in a land that all but shuts down in August, are racing to finish a draft law that could transform the German capital market. One estimate puts the potential value of listed real-estate investment trusts (REITs) at up to €230 billion ($290 billion); a more conservative guess lies between €30 billion and €70 billion. By comparison, the market capitalisation of REITs in America, 46 years after they started, is $340 billion.

A REIT is a property investment fund which typically escapes direct taxation if it distributes a lot of its profits (90% or more) to investors, who are then liable for tax, though some avoid it. REITs are therefore more liquid than other forms of property investment and in theory attract new classes of investor. They also allow industrial companies and insurers to realise the value of property which may be languishing on their books.

The plan is to have a draft law by mid-August and to let German REITs open on January 1st, the same day as in Britain. But several obstacles lie ahead. Most threatening is a lobby group led by three left-wing members of the Bundestag's finance committee, who say rents will soar if public housing ends up in a REIT owned by "profit-hungry speculators". Peer Steinbrück, the finance minister, believes he can allay their fears, which are anyway off the mark. Even without a REIT law, public housing has already been sold to foreign private-equity firms; but they, like other owners, are bound by rent-control clauses.

Fears that lots of foreign investors in REITs would escape tax altogether, as they have in France, paralysed lawmakers for a while. Then they seemed likely to come up with an unworkably complex tax rule. "Now it's beautifully simple," purrs an expert at Initiative Finanzstandort Deutschland, a lobby group that has campaigned for two years for REITs to be permitted.

Experts admit that the law may be delayed until the middle of next year. Some see this as a lost opportunity. But others say the costs may not be that great. REIT structures can already be created synthetically or listed abroad. Deutsche Bank has listed a REIT in Australia; Commerzbank has listed one in France, with tax advantages only because the assets too are French.

Fortress, an American private-equity firm, intends to list a property holding company in October containing its three German portfolios, but in Luxembourg. There is talk that it may turn this into a German REIT one day. Doing so would probably require a cut in the company's debt-to-equity ratio, from around 90% to the 60% limit envisaged in the law.

Until the law is passed, property portfolios listed in Germany are subject to 25% corporate tax. While big companies with expensive tax advisers can avoid this by creating structures abroad, ordinary investors and providers, such as small companies occupying their own property, will have to wait.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

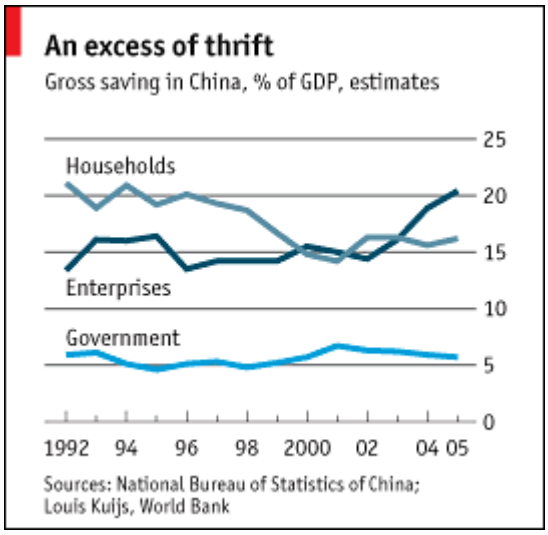
Dividends in China

Can't pay, won't pay

Jul 27th 2006 | HONG KONG
From The Economist print edition

Paying dividends would help both China's state firms and the economy

IMPRUDENT banks, aggrandising officials, avid foreign investors; many culprits are blamed for China's overheating economy. Yet those most responsible are rarely fingered: Chinese companies. The country's firms' investment in fixed assets was up by a cracking 35%, year-on-year, in June. This pace does much to explain the country's rapid GDP growth, of 11.3% in the year to the second quarter.



This investment is largely financed by companies' retained earnings: indeed, firms, not China's thrifty households, are now the country's biggest savers (see chart). Both the rate of retention and the furious pace of investment could be cut if companies were made to pay dividends. At the moment, China's state-owned enterprises (SOEs), which most of the biggest still are, do not pay dividends to their main shareholder, the state.

Louis Kuijs, an economist with the World Bank in Beijing who has studied the issue, calls this "remarkable". The reasons are historic. Before economic reforms began, state firms simply received all financing from the government budget and remitted any profit. In the 1980s SOEs were gradually given more independence and allowed to keep some profits in order to motivate managers and staff. Though sensible, this system broke down in practice as every state firm—after several rounds of consolidation, there are still 169,000 today—haggled over the precise share of earnings it could retain. China's 1994 tax reform cleared all that up, by setting a non-negotiable corporate tax rate (now around 33%, about double that for foreign firms). In return, companies could keep all their post-tax profits.

This mattered little in the early 1990s, when most SOEs made no money and needed any cash they generated to restructure themselves and repay debt. Nowadays, however, they are rather profitable. China's 169 biggest industrial state firms—a list that includes PetroChina, China Mobile and Baosteel—declared net profits of 600 billion yuan ($75 billion) last year, up from 400 billion yuan in 2004. A wider group of 450 big SOEs made 331 billion yuan in the first five months of this year, according to the State-owned Assets Supervision and Administration Commission (SASAC), which oversees them.

Extracting some of that profit in the form of dividends would force these firms to be more circumspect in how they spend the remainder, improving capital allocation and cutting back the wasteful investment and overcapacity so prevalent in China. It would also reduce the cash available for speculating in property and equity markets or for expansion into new, usually unrelated business lines—what Peter Lynch, a star American fund manager, once called "diworseification". Unfortunately, many managers in China are susceptible to both temptations. Forcing firms to rely more on external sources of financing should give China's capital markets a boost. And empirical research suggests that there is a link between high dividend pay-outs and good corporate governance.

There are macroeconomic benefits as well, says Mr Kuijs. Forcing greater financial discipline on SOEs should reduce pro-cyclical investment and thus China's tendency to swing from boom to bust. The money yielded could probably be spent more productively elsewhere. In fact, the World Bank points out, if even half of SOE's 2004 profits, estimated at 6.5% of GDP, had been spent on education and health, government spending in those areas would have been 85% higher. Such a boost—enough to waive all school fees, nationally—might persuade ordinary citizens to save less and spend more, leading to the

rebalancing of consumption and investment that policymakers have long sought.

The authorities in Beijing are well aware of these arguments. Zhou Xiaochuan, the central-bank governor, called on state firms to pay dividends in a speech at the end of last year. Li Rongrong, the head of SASAC, calls for this regularly. In February his officials said that a plan was being drawn up. To prepare, officials have made forays to Scandinavia, whose state-company dividend policies are regarded as a model.

That nothing concrete has happened can be blamed partly on China's glacial policymaking and partly on resistance from local bureaucrats who want investment in their provinces to continue at full steam. But it also has something to do with a ministerial battle over who would control the funds. SASAC would collect them and Mr Li, who makes much play of his role as an "investor", would undoubtedly like to manage them, turning his agency into an imitation of Temasek, Singapore's state investment company. The Ministry of Finance, however, says it should allocate the cash, especially since it paid for the losses and reorganisation of the SOEs in years gone by. Whoever wins, some action seems certain, given the need to cool the economy. For China's state firms, can't pay has already turned into won't pay. Must pay is surely not far behind.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Corruption in ex-communist countries

Judge or be judged

Jul 27th 2006
From The Economist print edition

In the ex-communist world corruption seems to be declining. Mostly

TURNING an aquarium into fish soup is simple. Turning the fish soup back into an aquarium is not. For the ex-communist countries, stabilising economies and introducing market mechanisms has proved the easy bit. Remaking public institutions, and making them clean and efficient, is much harder to do and to measure.

A new study published this week by the World Bank* casts an optimistic light. It asked almost 10,000 firms in 26 ex-communist countries (Turkmenistan was excluded) and Turkey about the cost and frequency of bribe-giving, and their views about the nature and nuisance-level of corruption. This time, for comparison, it included five other European countries.

Compared with the previous surveys, in 1999 and 2002, it suggests corruption in the region is becoming a bit less frequent, costly and damaging. Although some countries are doing better than others (Georgia is a strong performer, Russia a weak one) nowhere is it getting comprehensively worse. In many countries corruption is falling on every count.

The trend is favourable—but, the authors note, still reversible. The Czech Republic, for example, scored well in 2002 and seems to have gone backwards since. But there's a twist. That firms complain more about corruption may be a good sign if it means they are becoming less tolerant of it. The most depressing feature of the report is the high incidence of firms in Russia—fully a fifth—that say they pay bribes often but do not regard it as a problem. That figure is four times higher than in the eight nations now in the European Union.

Most progress has been made in customs administration, which used to be slow and predatory but is now quick and clean. That reflects the changes in the countries that have joined the EU and those in the Balkans that are eager to join. The average "bribe tax"—the share of turnover paid by those firms that pay bribes—has declined from 3.6% to 2.9%, though booming economic growth means that the total of bribes paid is probably rising.

The report says corruption hurts private firms more than state-owned ones, small more than large, new more than old, locally owned more than foreign. In short, the weak suffer more than the strong.

One big remaining problem, especially in the poorer ex-communist countries, is the justice system. In the early post-communist years, the trend was to give judges great independence but low salaries. That was a recipe for corruption. The new approach is to pay them more and police their activities more strictly. That is working—particularly in Romania—but it is a slow slog elsewhere.

Other kinds of corruption are harder to deal with. Public procurement is notably dirty—though not noticeably worse than in some countries of "old Europe". High-level political corruption, or "state capture" in the jargon, is also a lingering curse. That is when bribery affects not just the implementation of policy, but its conception. As the Russian proverb says, a fish tends to rot from the head.

*** "Anticorruption in Transition 3: Who is succeeding and why?": www.worldbank.org/eca/act3**

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com
FINANCE & ECONOMICS
ECONOMICS FOCUS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Economics focus

Venturesome consumption

Jul 27th 2006
From The Economist print edition

In praise of America's fearless consumers of new ideas and products

DISMAL scientists are finding more reasons than ever to worry about the prospects for America's economy—even though the country's GDP somehow still manages to grow at a decent lick. Oil prices are high, of course; partly as a result, inflation is rising. Consumer debt is at record levels. America is borrowing from abroad on a gargantuan scale to finance its current-account gap. And the housing bubble may be bursting.

For a growing number of economists and policymakers, however, the greatest fear of all—not least because its long-term consequences may be so deep—is that America is losing its global lead in technology. In the battle to invent and innovate, China and India, in particular, with their gazillion-strong cohorts of engineering and science graduates, will soon overwhelm the dullards and liberal arts students churned out by America's education system. Nor is this a uniquely American worry. You hear similar worries in Europe too, although there the fear is less of losing the lead than of falling even further behind.

Such ideas, expressed in alarming books such as "Three Billion New Capitalists: The Great Shift of Wealth and Power to the East", by Clyde Prestowitz, once a trade negotiator in the Reagan administration, are being cited increasingly by supporters of a wide range of potential remedies. These include getting more Americans to study science and engineering, bigger tax breaks for research and development, and trade protection to prevent the innovative hordes from China and India from storming America's gates.

Innovative thinking

In a marvellously contrarian new paper*, Amar Bhidé, of Columbia University's business school, argues that these supposed remedies, and the worries that lie behind them, are based on a misconception of how innovation works and of how it contributes to economic growth. Mr Bhidé finds plenty of nice things to say about many of the things that most trouble critics of the American economy: consumption as opposed to thrift; a plentiful supply of consumer credit; Wal-Mart; even the marketing arms of drug companies. He thinks that good managers may be at least as valuable as science and engineering graduates (though given where he works, perhaps he is talking his own book). But he has nothing nice to say about the prophets of technological doom.

Mr Bhidé says that the doomsayers are guilty of the "techno-fetishism and techno-nationalism" described in 1995 by two economists, Sylvia Ostry and Richard Nelson. This consists, first, of paying too much attention to the upstream development of new inventions and technologies by scientists and engineers, and too little to the downstream process of turning these inventions into products that tempt people to part with their money, and, second, of the belief that national leadership in upstream activities is the same thing as leadership in generating economic value from innovation.

But nowadays innovation—a complex, gradual process, often involving many firms making incremental advances over many years—is not much constrained by national borders, argues Mr Bhidé. Indeed, the sort of upstream innovation (the big ideas of those scientists and engineers) most celebrated by those who fear its movement to China and India is the hardest to keep locked up in the domestic market.

The least internationally mobile innovation, on the other hand, is the downstream sort, where big ideas are made suitable for a local market. Mr Bhidé argues that this downstream innovation, which is far more complex and customised than the original upstream invention, is the most valuable kind and what

America is best at. Moreover, perhaps the most important fact overlooked by the techno-nationalists, notes Mr Bhidé, is that most of the value of innovations accrues to their users not their creators—and stays in the country where the innovation is consumed. So if China and India do more invention, so much the better for American consumers.

The most important part of innovation may be the willingness of consumers, whether individuals or firms, to try new products and services, says Mr Bhidé. In his view, it is America's venturesome consumers that drive the country's leadership in innovation. Particularly important has been the venturesome consumption of new innovations by American firms. Although America has a lowish overall investment rate compared with other rich countries, it has a very high rate of adoption of information technology (IT). Contrast that with Japan (the original technology bogeyman from the East) where, despite an abundance of inventive scientists and engineers, many firms remain primitive in their use of IT.

One reason why American firms are able to be so venturesome is that they have the managers capable of adapting their organisations to embrace innovation, says Mr Bhidé. Pressure to be venturesome may have come from America's highly competitive markets. And America's downstream firms are arguably the world's leaders in finding ways to encourage consumers to try new things, not least through their enormous marketing arms and by ensuring that there is a lavish supply of credit.

No doubt, even venturesome consumers can overdo their enthusiasm for innovation, just as venturesome investors overdid it during the dotcom bubble. Yet, if Mr Bhidé is right—and a lot more hard data would do wonders for his case—then America's policymakers should worry more about how to keep consumers consuming than about the number of science and engineering graduates, at home or in the East.

*** "Venturesome Consumption, Innovation and Globalisation", presented in Venice at the CESifo and Centre on Capitalism and Society conference, July 21st-22nd.**

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Alzheimer's disease

Puzzling out the truth

Jul 27th 2006 | MADRID
From The Economist print edition

A century after its characterisation by Alois Alzheimer, senile dementia remains almost untreatable. But there is hope

Alamy

BETA or tau? That is the question. On it hang both the health of many of the baby-boomer generation as they reluctantly stare old age in the face and the financial health of rich countries' medical and social-security systems. For, as the 10th International Conference on Alzheimer's Disease and Related Disorders, held recently in Madrid, heard, the relentless growth in the number of people with Alzheimer's threatens health-care provision in the developed world.

Medical advance means that other diseases are failing to cull the population before Alzheimer's destroys people's minds. And Alzheimer's is both expensive and lingering. In America, the average cost of looking after someone with the disease between diagnosis and death is at least $174,000.

At the moment, 4.5m Americans have Alzheimer's. By 2050, if nothing changes, that number will have trebled. But if a treatment that delayed the disease's onset by seven years were to be available by the end of the decade, the number of sufferers would decline by 40% by the middle of the century. Hence the importance of understanding how Alzheimer's works, the better to devise a treatment.

Beta (in the form of beta-amyloid plaques) and tau (in the form of tau tangles) are the physical manifestations of Alzheimer's. The plaques are globs of rogue protein in the spaces between nerve cells. The tangles are made of a different rogue protein, and form inside nerve cells.

The smart money says that plaque formation triggers the disease, and that the tangles are a secondary effect. This is known as the amyloid-cascade hypothesis, and most searches for treatment are based on it. But there are dissenters who reckon that this is the wrong conclusion. Some think that the role of the tangles is being underplayed, others that something altogether different has gone wrong.

It's all Greek

Amyloid plaques form when a molecule called amyloid precursor protein (APP) is chopped up by two

enzymes known as beta-secretase and gamma-secretase. One of the products, with the long-winded name amyloid beta-peptide 42, has the unfortunate property that its molecules like to stick to each other. The resulting plaques, reckon supporters of the cascade theory, trigger the brain damage that manifests itself as memory loss, behavioural and personality changes, and general and irreversible cognitive decline. So, stop the plaques forming—or get rid of them once they have formed—and you should be able to control the disease.

One way to do so might be to develop a vaccine that stimulates antibodies against amyloid beta-peptide 42. That is the path being pursued by Elan Pharmaceuticals and Wyeth Research. In 2000, these two firms began a clinical trial of such a vaccine. Unfortunately, they had to halt it when 18 of the 300 patients involved developed severe inflammation of the brain. In the time that the trial had run, however, the researchers noticed that those patients who had reacted to the vaccine, but whose brains had not swollen up, showed a marked slowing of cognitive decline. This suggested they were on the right track, and the companies are now testing what they hope is a less toxic vaccine.

An alternative to vaccination is to make the antibodies in a factory, and then inject them. This is called passive immunisation. Preliminary trials suggest it is safe, and a study carried out by Wyeth showed that treatment with a single dose of antibody produced significant cognitive improvements over the course of four months. In other words, the drug does not just slow the disease, it reverses it.

Nor is the immunological approach the only one under investigation. For the past decade there has been a lot of work on drugs called secretase inhibitors, which alter the activity of the enzymes that create amyloid beta-peptide 42.

Researchers have known for some time that the long-term use of aspirin and ibuprofen, which belong to a group of drugs called non-steroidal anti-inflammatories, roughly halves a person's risk of developing Alzheimer's. This has nothing to do with their anti-inflammatory properties, though. It is because they also act on gamma-secretase. They alter the way it cleaves amyloid precursor protein. Instead of producing amyloid beta-peptide 42 (so called because it has 42 of the amino-acid units of which proteins are composed), they make peptides 37 or 38 amino acids long. These do not stick to one another.

Kenton Zavitz and his colleagues at Myriad Genetics presented the firm's latest findings on a non-steroidal anti-inflammatory derivative called R-flurbiprofen. Like many other molecules, flurbiprofen has a left-handed and a right-handed form. Normally, when the drug is synthesised, these are made in equal numbers. But it is possible to separate them.

Right-handed flurbiprofen lacks the anti-inflammatory effects of the left-handed version. This means it is less likely to cause the gastrointestinal problems associated with non-steroidal anti-inflammatories, so it is safe for long-term use. It still retains its APP-cleaving properties, though. The results of a trial with 200 Alzheimer's patients are encouraging. Patients with a mild version of the disease who took a high dose of the drug had a slower rate of decline than those who did not.

Hedging bets

Not everybody believes that focusing on amyloid is the right way to go, however. That is because there is, in fact, no clear correlation between the deposition of the plaques and the development of cognitive problems. Some dissenters think that tau tangles play a more central role than the cascaders have been willing to admit. There are also those, like Larry Goldstein, a professor of cellular and molecular medicine at the University of California, San Diego, who believe the triggering event is unrelated to either beta or tau, and is, in fact, a defect in the way that materials are transported through the filamentary protrusions, known as axons, that connect nerve cells to each other in the brain and to other cells a long way away in the body.

For tau, at least one drug is being tried out. Memantine has been prescribed for more than 20 years for various brain disorders, including dementia, because it is believed to protect against high levels of a neurotransmitter called glutamate. But there is evidence from several animal studies that it also prevents the modification of tau protein that leads to the formation of intracellular tangles. Work by Malin Gunnarsson and her colleagues at Uppsala University in Sweden recently confirmed that this is true in people, too.

Such bet-hedging is sensible. Alois Alzheimer's original paper, identifying both plaques and tangles, was presented in November 1906. A century later, the disease that bears his name is still a mystery—as is

the question of how to treat it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Animal behaviour

Elephant empathy

Jul 27th 2006
From The Economist print edition

Elephants, proverbially, never forget. This photograph suggests that they may even remember their dead. It comes from a paper about to be published in *Applied Animal Behaviour Science* by Iain Douglas-Hamilton, a Kenyan zoologist, and his colleagues. The question of whether intelligent mammals such as elephants have similar emotional reactions to those of people is much debated in zoological circles. Mr Douglas-Hamilton's researchers were able to observe the reaction of other elephants to the death of Eleanor, the matriarch of a group called the First Ladies. The picture shows an elephant from a neighbouring group pulling at her body. On several occasions before she died, other elephants had tried to help her stand up. Such behaviour is in contrast to that shown by most animals to sick or dead individuals. They just ignore them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Neanderthal Genome Project

A study with a lot of balls

Jul 27th 2006
From The Economist print edition

A brave attempt to sequence the Neanderthal genome

THE Human Genome Project is sooo yesterday. So what is a firm with a clever, new gene-sequencing technology to do in order to make a splash? Look yesterday squarely in the face, of course. And that is exactly what Jonathan Rothberg and Michael Egholm, of 454 Life Sciences, plan to do.

The particular yesterday they have in mind was about 40,000 years ago. It was the day when a man died in a cave in the Neander valley in what is now Germany. His skeleton is the type specimen of *Homo neanderthalensis*—Neanderthal man—and Dr Rothberg and Dr Egholm obtained permission to remove a few grams of the skeleton's right arm in order to extract the DNA therein. From it, they hope to work out a complete sequence of the chemical base pairs that constitute its genetic letters; in other words a Neanderthal genome.

Neanderthal man is a controversial creature. He inhabited Europe from 300,000 to 35,000 years ago, his disappearance coinciding with the arrival of *Homo sapiens*. Once, it was thought the one might be ancestral to the other. That is no longer believed. But the question of whether Neanderthals were deliberately exterminated by their more modern rivals, or merely outcompeted, is unresolved, as is that of whether the two species ever interbred. The Neanderthal Genome Project that Dr Rothberg and Dr Egholm have embarked on in collaboration with Svante Paabo, of the Max Planck Institute in Leipzig, may answer the second of those questions. It may also, by providing a genome that can be compared with both modern humans and chimpanzees, shed light on what it means, genetically, to be human.

The gene-sequencing technology used by 454 relies on specially designed chips with 1m or more tiny wells in them. The DNA to be analysed is broken up into fragments about 100 base pairs long (one of the advantages, from 454's point of view, is that time has already performed the task of breaking the DNA up into fragments of the right length). It is then shaken up in a mixture of water, a special silicone-based oil, a large quantity of tiny plastic balls, and the reagents of the polymerase chain reaction (a way of duplicating DNA to make small samples bigger).

The aim is to get the smallest sample possible—a single type of DNA molecule—into each well on the chip. That is done by shaking the mixture to create an emulsion of tiny, watery droplets in the oil. Get the conditions right, and many of the droplets will have a single DNA molecule in them, while most of the rest have none. The droplets will also contain the PCR reagents, which are soluble in water but not oil, and the plastic balls.

The next stage is to let the polymerase chain reaction do its work of multiplying the DNA strands in the droplets. The nature of the plastic means that the strands tend to stick to it, and the upshot is hundreds of thousands of balls each covered with a single sort of DNA. These can, with a little persuasion, be encouraged to drop into the wells on the chip. The DNA molecules on the balls can then be analysed by a technique that uses fluorescence to read the sequences of the bases of which they are composed.

Once the sequences of the DNA fragments have been obtained, the overlaps between them can be used to stitch them together into a complete message, as has been done for many other species. Those species, though, have still been alive. This will be the first time the genome of an extinct animal has been read.

Most of the Neanderthal genome is expected to resemble that of modern humans and (slightly less closely) modern chimpanzees, which are Neanderthals' two closest living relatives. The places of particular interest are those that the genome shares with neither species. Not only will these define what is uniquely Neanderthal, but they will also help to define what is unique to *Homo sapiens*, by showing

which of its differences from chimpanzees are the result of common hominid heritage, and which the result of species-specific evolution.

Drs Rothberg, Egholm and Paabo hope to have their answer within two years. For Dr Paabo, the genome itself is the thing. It will be the culmination of a decade and a half of studying ancient DNA (and, along the way, providing the inspiration for "Jurassic Park"). Dr Rothberg and Dr Egholm, meanwhile, hope that this demonstration of their technology's power will lead to medical applications.

They aim to be able to sequence a human genome from scratch for $500,000. That is a lot of money, but peanuts compared with the billions spent on the Human Genome Project itself. And it is a small enough sum for it to be worthwhile looking at the entire genomes of people with diseases that have complex genetic causes, in order to see how they differ from healthy individuals.

Of course, technology gets cheaper all the time. One day, the firm hopes, its chip-and-ball technology will be cheap enough for clinical use. But if its collaboration with Dr Paabo bears fruit, it will surely be the cave-man connection that keeps it in the public eye.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Electric cars

Not so shocking

Jul 27th 2006 | SANTA MONICA
From The Economist print edition

High-tech entrepreneurs unveil a sporty electric car

ASK people if they would buy a new electric car and most will respond blankly. After all, electric cars have not been seen in large numbers for nearly a century, and the golf carts and milk floats that represent electrified transport today are hardly the sort of vehicle to win many people over.

And don't terminate it the first time you drive it

Tesla Motors aims to alter that perception. The venture, based in California and financed by Elon Musk, the founder of PayPal, and Larry Page and Sergey Brin, the co-founders of Google, has unveiled a two-seat sports car. It will cost $89,000, and Tesla aims to sell a couple of thousand of them before introducing a cheaper, four-seat version.

The car's design alone is likely to turn old-fashioned notions of electric vehicles on their head. Beyond that, Tesla makes three audacious claims. The first is that the vehicle accelerates from nought to 100km (60 miles) per hour in just four seconds. That is faster than a Ferrari. The second is that it can travel 400km on an overnight charge from an ordinary 240 volt socket. The third is that it is more environmentally friendly than a petrol-driven equivalent.

There is no doubting its breathtaking quickness. And the range of 400km is a heroic accomplishment, made possible by the use of advanced lithium-ion batteries and lightweight carbon-fibre bodywork. Dr Musk, the firm's chairman, concedes that racing Ferraris all the time would reduce the range somewhat, but points out that, using the American government's methodology, the car's fuel efficiency is the equivalent of 52.5km per litre of petrol (135 miles per American gallon). The average new American car gets less than 12km per litre.

The grand claims of greenery might sound a bit fishy, given that most electricity is made from fossil fuels, but several studies have shown that electric vehicles which draw their power from a grid that is itself half coal-fired (as America's is) produce less in the way of greenhouse gases than an average petrol-driven car.

Tesla, though, aims to be even greener than that, according to Dr Musk. The firm plans to offer optional solar-photoelectric systems, to be set up as a car port at home, that will be able to power the cars for 80km a day without having to draw on the grid. Given that the average driver travels less than this, the idea promises, as Dr Musk puts it, to "make our cars energy positive"—for those with Santa Monica's reliable sunshine, at least.

There was one gripe, though. Some of the petrolheads at Tesla's launch party complained that the silence of the electric motor was too alien. They missed the grunt and growl of an internal-combustion engine. A Tesla engineer nearby came back with an idea: "We'll program the software to have a variety of engine roars, just like ring tones on mobile phones."

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Thailand's royalty

The impenetrable face of Thai monarchy

Jul 27th 2006
From The Economist print edition

Where balanced criticism is seen as lèse-majesté

The King Never Smiles: A Biography of Thailand's Bhumibol Adulyadej
By Paul M. Handley

Yale University Press; 512 pages; $38 and £22.50

Buy it at
Amazon.com
Amazon.co.uk

AP

IT DOES not take visitors long to realise that royalty has a more exalted status in Thailand than in most of the world's constitutional monarchies. The king's picture is everywhere. The royal anthem, rather than the national one, is played before every screening at the cinema—and failure to stand up for it results in a sharp prod from an usher. Tall buildings must not overshadow the royal palace, and traffic must not cross bridges when a royal motorcade passes beneath. Members of the royal family, if not the king himself, perform the country's most important religious rituals, confer all university degrees, supervise development projects and so on and so forth.

Criticising King Bhumibol, as this new biography sometimes does, is taboo. Many Thais revere him as a sort of latter-day Buddha, selflessly postponing his own enlightenment in order to guide his subjects through the mire of modern life. They would not dream of subjecting him to the kind of prurient scrutiny that other royals regularly suffer, from Monaco to Malaysia. The few who think otherwise are kept in line by the occasional prosecution for lèse-majesté.

Little wonder, then, that before Paul Handley no one had really pried into the king's sleeping habits, let alone the state of his marriage or his political views. The story he uncovers is fascinating. Bhumibol was born several rungs down in the order of succession, and never expected to become king. He grew up in Switzerland in the care of his mother, a commoner of mixed Thai-Chinese origin.

Thanks to the abdication of his uncle, and then the mysterious death of his brother, he found himself on the throne in 1946, aged only 18. He has since survived umpteen coups and changes of constitution, and great social and economic upheaval, to become the world's longest-serving monarch. During his reign, Thailand has evolved from a poor, agrarian dictatorship into a prosperous, urbanising democracy.

The monarchy has flourished too. When King Bhumibol moved to Thailand in 1951, after finishing university in Lausanne, the country had been without a resident king for 17 years. Royal ceremonies had fallen into abeyance, and the throne's political influence had atrophied. Mr Handley describes how Bhumibol and his royalist allies battled with a succession of overweening strongmen and levelling democrats to increase his prominence and prestige. The king is now so influential that he need only muse aloud about, say, a new overpass to ease congestion in Bangkok, or a new system to tag stray dogs, to set off a race among politicians and bureaucrats to implement his ideas.

The king is also credited with using this enormous moral authority to promote democracy and chastise Thailand's more venal and violent leaders. But he has done so surprisingly sparingly and obliquely, given his saintly reputation.

King Bhumibol's only other English biography, "The Revolutionary King" by William Stevenson, argues that his interventions have been effective precisely because they have been guarded and infrequent. But Mr Handley has another explanation for the rarity of the king's democratic sorties: that Bhumibol has little faith in democracy, and sees the monarchy, abetted by authoritarian rulers, as a better guardian of the people's welfare.

That argument is quite persuasive. The king does, after all, surround himself with soldiers and bureaucrats, but gives politicians and activists a wide berth. His dream of a "sufficiency economy", where people seek only to cater to their basic needs, seems far removed from the brute materialism of Thai politics.

But it is hard to reach any firm conclusions about King Bhumibol's character, because Mr Handley's book is oddly impersonal. There is almost no attempt to assess the king's feelings at critical junctures, such as the death of his brother or his marriage. A decision that the king has presumably agonised over—to designate his womanising and unpopular son as heir in the place of a dutiful and adored daughter—is dispensed with in passing. King Bhumibol is too self-disciplined, and his confidants too discreet, to give Mr Handley the material he needs to flesh out the stern, ubiquitous royal portraits.

The King Never Smiles: A Biography of Thailand's Bhumibol Adulyadej.
By Paul M. Handley.
Yale University Press; 512 pages; $38 and £22.50

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Nuclear proliferation

Opening the door

Jul 27th 2006
From The Economist print edition

IF THE long-predicted tidal wave of nuclear proliferation ever hits, the individual most responsible for the catastrophe will be Abdul Qadeer Khan, and the country, his native Pakistan. Metallurgist turned nuclear entrepreneur, Mr Khan, once feted in the Islamic world as the "father of Pakistan's bomb", is now confined to one of his many houses, in a wealthy quarter of Islamabad, forbidden to have foreign visitors or use the telephone.

Gordon Corera's story of how Mr Khan, once the powerful head of one of Pakistan's two rival nuclear laboratories, was eventually outed and ousted for his highly profitable nuclear freelancing is a page-turner. No one knows, even to this day, how much Pakistan's leaders knew of the "nuclear Wal-Mart" Mr Khan operated. The president, General Pervez Musharraf, is on record describing the moment the CIA handed him their detailed dossier of Mr Khan's proliferation activities, bank accounts and the like as the "most embarrassing" of his life—but whether because he knew and had been caught out, or because he was unaware of the scale of Mr Khan's nuclear state within a state, he isn't saying. Certainly, most of what Mr Khan did broke no Pakistani law.

Nor is it clear how many customers Mr Khan really had: more than North Korea, Iran and Libya, whose dealings are recounted here, for sure. Why did he do it? The Khan network began in support of Pakistan's determination to "eat grass or leaves" if need be to get its hands on a bomb to match India's. Quite when this Pakistan-centred import procurement network turned into the core of a global export-led proliferation network, run increasingly for private profit, isn't clear.

Shopping for Bombs: Nuclear Proliferation, Global Insecurity and the Rise and Fall of the A.Q. Khan Network
By Gordon Corera

Hurst; 274 pages; £16.95. To be published in America by Oxford University Press in September

Buy it at
Amazon.com
Amazon.co.uk

By all accounts, Pakistan bought North Korean nuclear-capable missiles in the early 1990s for cash. When money later got tight, it bartered nuclear expertise instead. Dealings with Iran and Libya over the years seem to have been driven increasingly by personal greed rather than by state policy or by Mr Khan's avowed nuclear patriotism.

He got away with it for so long, first, because Western governments in the 1980s saw fighting communism as more important than fighting proliferation—a false choice, argues Mr Corera—and, later on, because Pakistan's own nuclear buying provided a cover for its selling through the same intermediaries. The picture was hard to piece together. Eventually Western intelligence agencies, relying on traditional derring-do, penetrated the heart of the Khan operation.

Yet even then it was hard to persuade a nervous General Musharraf to put Pakistan's nuclear hero out of business. It was revelations about Iran's hidden nuclear programme, and the interception of a shipment of nuclear parts bound for Libya (which hastened Libya's decision to tell all about its dealings with the Khan network), that brought Mr Khan down with a thud.

But the damage he did was irreparable. Before his fall, he had been lining up a fourth (so far undetected) big customer for his full-service bomb-building package. Some deliveries known to have been in the supply pipeline, which spanned companies in at least a dozen countries and was co-ordinated through a front company in Dubai, are still unaccounted for. So are electronic copies of detailed, e-mailable designs for a uranium-enrichment plant. Mr Khan provided Libya with a virtually complete bomb design (given to Pakistan originally by China in its irresponsible days); were North Korea and Iran, and possibly others, sold that too?

By turning the bomb into a marketable commodity, Mr Khan and his network helped sweep away the barriers to entry into the nuclear business. Parts of the network have been shut down. Others are still operating. And, as with any profitable venture, there will be imitators.

Shopping for Bombs: Nuclear Proliferation, Global Insecurity and the Rise and Fall of the A.Q. Khan Network.
By Gordon Corera.
Hurst; 274 pages; £16.95. To be published in America by Oxford University Press in September

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

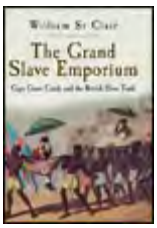
Slavery in west Africa

Stones of shame

Jul 27th 2006
From The Economist print edition

CAPE COAST CASTLE in Ghana was the capital of the British slave trade in west Africa for more than a century. Some 100,000 people a year were dragged there as transatlantic cargo. But the castle rarely appears in standard versions of 18th-century life. William St Clair deserves some sort of medal (Disorder of the British Empire, perhaps) for sifting through records and ledgers, and assembling so beguiling a description of its cruel career.

The Grand Slave Emporium: Cape Coast Castle and the British Slave Trade
By William St Clair



Profile Books; 288 pages; £16.99

Buy it at
Amazon.co.uk

He is careful in his discussion of slavery, describing the gross inhumanity involved, but avoiding a too rapid or too simple assignment of blame. He tends to see the castle not as the evil child of a wicked imperialist plot, but as the symptom of a wider failure of restraint. It was part of a rapacious and chaotic muddle.

The British were fully engaged in the business, but still sold less than half the total number of trafficked slaves. Dutch, Portuguese and, later, American traders were involved too. And nothing was possible without the active collaboration of local Africans. The cost of a slave on the coast was £5 and rising, but the price inland was just £1. Few Europeans, however, were happy to take on the interior: mosquitoes, tsetse flies and crocodiles were cruel deterrents. So, since they held back, the lucrative inland leg of the trade was African-run.

Cape Coast Castle itself was thinly manned. The occupying army was tiny, with only 50 officers on the entire coast, plus handfuls of conscripts, mostly "misfits and criminals". Though the castle now looks a powerful symbol of iniquity, in its day it was a lightly fortified trading post which could easily have been tipped into the sea. But the trade was a source of wealth and work for all concerned and thrived in a wide circle of complicity.

Mr St Clair's cool eye dwells on the details that provide the monument's bizarre and haunting resonance. It was the site of insane brutality and of foul diseases (smallpox, malaria, cholera), yet it was also a place of elegance and refinement, of pools and orchards, silk hangings and fine wines—and the source of many ignoble fortunes. It attracted the licentious, the cruel, the greedy and the luckless, and installed them in a fortress above the ocean. Two centuries later, slavery remains an episode hard to look at with level head, but Mr St Clair shines a light at the heart of the shame.

The Grand Slave Emporium: Cape Coast Castle and the British Slave Trade.
By William St Clair.
Profile Books; 288 pages; £16.99

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Modern poetry

Good companions

Jul 27th 2006
From The Economist print edition

Verse to lull you and to wake you up

HERE are two of the sadder truths about poetry. First, it is much esteemed, but much less read; second, the dead are more in favour than the living. So how can it be made to seem more companionable?

One way is to survey the terrain from a considerable height by dipping into a good anthology. "The Oxford Book of American Poetry", edited by David Lehman, a poet and critic, is such a book. Its last edition was published 30 years ago and Mr Lehman's approach is markedly different. The book still begins with American poetry in its 17th-century infancy, but pays much more attention to living and recent poets: a quarter way through, readers are well into the 20th century.

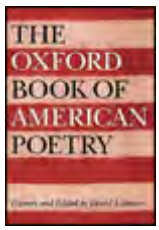
The anthology includes many more poets than the last edition, smaller names as well as big ones, and it is a more complete record of poetry's place in the wider world of popular culture. A famous blues lyric by Bessie Smith is here, and also "Desolation Row", one of Bob Dylan's best lyrics. In this way the book is not only a sound historical survey, but also gives the reader a powerful taste of poetry's impact upon the wider world.

Well represented in the anthology is Billy Collins, an American poet whose new collection, "The Trouble with Poetry", has just been published. Mr Collins is unusual in several respects. His poetry, by the sheer force of its humour and general amiability, reaches out to a wide audience. He writes with great fluency and is the least self-consciously obscure of poets: you don't find yourself snagged on a word that has spent most of its life slumbering in a dictionary. His verse pokes fun at the posturing that poets get up to from time to time. In short, his poems, which inveigle their meanings very delicately, seem to refresh the world in which we live, and make it seem as if good poetry—and this is very good poetry—would be not too hard to write. Just you try.

Tony Connor is a British poet of force, clarity and honest craft. "Things Unsaid" gathers together some of the best of what he has written over the past 60 years. In the 1960s, he was writing about growing up in a working-class area in England's industrial north, and the mood and atmosphere of these early poems—dour and bolted-down—make the details ring as true as a hammer coming down on an anvil. Mr Connor feels both trapped and enthralled to have been, as he himself writes, "the sociable, lonely poet,/a rueful one-man sect,/in an ugly, ignorant city—his God-given subject."

Mark Strand, whose 11th collection, "Man and Camel", will be published in September, is also represented in the Oxford anthology. He writes short poems which read like dream-parables whose meanings the reader is forever on the point of seizing. They drift pleasingly along, like water finding its way through the landscape, or some small, vulnerable boat cast airily adrift on the sea. The subject of each one feels as if it is finding itself at the very moment of writing. They are lullingly musical—indeed, one entire sequence is a kind of loose interpretation of a quartet by the composer, Anton Webern. Perfect poems for the cocktail hour.

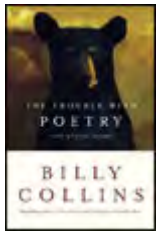
The Oxford Book of American Poetry
Edited by David Lehman



Oxford University Press; 1132 pages; $35 and £25

Buy it at
Amazon.com
Amazon.co.uk

The Trouble with Poetry: And Other Poems
By Billy Collins



Random House; 112 pages; $22.95. Picador; £8.99

Buy it at
Amazon.com
Amazon.co.uk

Things Unsaid: New and Selected Poems
By Tony Connor

Anvil Press; 320 pages;

To jar yourself awake, almost chair-leapingly so, read "Gethsemane Day", a collection published earlier this year by Dorothy Molloy, an Irish poet. This is a spiky, nervy book of poems, dramatic, and self-dramatising too, with some of the driven compulsiveness associated with Sylvia Plath. Except that there is more raucous fun in this book than ever found in Plath. The author writes about childbirth and mother-thraldom and Catholicism, and sometimes several of these themes at once, with a kind of raging, and occasionally black, gleefulness.

The truly sad fact is that, although this is only her second book of poems, Ms Molloy's great talent was snuffed out by cancer before even the first of her two books, "Hare Soup", was published in 2004.

The Oxford Book of American Poetry.
Chosen and edited by David Lehman.
Oxford University Press; 1132 pages; $35 and £25

The Trouble with Poetry: And Other Poems.
By Billy Collins.
Random House; 112 pages; $22.95. Picador; £8.99

Things Unsaid: New and Selected Poems.
By Tony Connor.
Anvil Press; 320 pages; £15. To be published in America by Anvil in October

Man and Camel.
By Mark Strand.
To be published in America by Knopf in September

Gethsemane Day.
By Dorothy Molloy.
Faber and Faber; 92 pages; £8.99

£15. To be published in America by Anvil in October

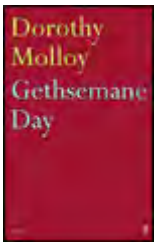
Buy it at
Amazon.com
Amazon.co.uk

Man and Camel
By Mark Strand

To be published in America by Knopf in September

Buy it at
Amazon.com
Amazon.co.uk

Gethsemane Day
By Dorothy Molloy



Faber and Faber; 92 pages; £8.99

Buy it at
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

New fiction

Wanderings of a drugstore ship

Jul 27th 2006
From The Economist print edition

A DECREPIT chemical tanker seeks refuge in an African port; a seaman searches for salvation; a plot to steal a black-market fortune is unfurled. David Masiel's second maritime adventure, published in America last December and now just out in Britain, pitches the reader into a cruel world of betrayal and corruption.

Mr Masiel, who draws on a decade's experience as a merchant seaman, came to attention in 2002 when his first novel, "2182 Kilohertz" was published. His second book, which again nods to Joseph Conrad, is accomplished and menacing, a seat-of-the-pants plot given breadth by bold characterisation and sense of place.

Harold Snow, 60, scarred and cynical, is bosun of the *Tarshish*, a 600-foot tanker with a volatile and valuable cargo of bulk chemicals. This "drugstore ship" is under the command of the first mate, Charlie Bracelin, a brute who keeps his tattooed arms on show in all weathers to intimidate recalcitrant crew members. Together the two men embark on a scheme that involves incapacitating the ship's skipper, changing the vessel's identity at sea, and sailing from San Francisco to Panama City to the west African coast in search of a port where, in return for cash, no questions are asked.

The Western Limit of the World
By David Masiel

Random House; 304 pages; $24.95. Hamish Hamilton; £18.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Masiel underpins the adventure with his rounded, flawed characters. Snow, from whose perspective the tale is told, is the conscience of the book, a man whose turbulent past plays tricks on his mind and who is tormented by his need for absolution.

Bracelin, who in less able hands could have become a cartoon villain, is also deftly portrayed. Here is a man who, despite his thuggishness, corrects the grammar of his crew and can, when it matters, use his brain instead of his fists. A counterpoint to the machismo of Snow and Bracelin is Beth, a half-English, half-Liberian beauty, a mix of femininity and toughness. Her feigned affair with Snow, to protect her from the attentions of the crew, only emphasises the bosun's feelings of inadequacy.

By weaving philosophical questions about life, death and loyalty—a man's choice between damnation and redemption—into his adventure story, Mr Masiel has produced a book whose fingers reach into dark corners.

The Western Limit of the World.
By David Masiel.
Random House; 304 pages; $24.95. Hamish Hamilton; £18.99

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Venetian art

The line of beauty

Jul 27th 2006
From The Economist print edition

WHO was the first modern artist? How about Giorgione? A far-fetched notion, perhaps, but this Renaissance Venetian revolutionised painting—and his work, focusing on secular subjects such as nudes, landscapes and female beauty, was dubbed "modern" by the leading art commentator of the day, Vasari.

Giorgione was not alone, as illustrated by the excellent catalogue accompanying the exhibition "Bellini, Giorgione, Titian, and the Renaissance of Venetian Painting" now showing at the National Gallery of Art in Washington, DC. What made him, and the generation of artists he inspired, so special was his ability to absorb the new currents of culture then flowing through Venice. A catalyst was Leonardo da Vinci, who briefly visited Venice in 1500. In Leonardo's drawings, Giorgione, as well as the younger artist, Titian, and their master, Giovanni Bellini, glimpsed a new conception of the human form, based on observation and expressed in smoky contours and subtle shades of light and dark.

Bellini, Giorgione, Titian, and the Renaissance of Venetian Painting
By David Alan Brown

Yale University Press; 336 pages; $65 and £40

Buy it at
Amazon.com
Amazon.co.uk

Over the subsequent 30 years, one of the most exciting periods in the history of art unfolded. In readable, engaging essays, David Brown and Sylvia Ferino-Pagden, the exhibition's curators, together with a team of top scholars, tell its story. We learn how this triumvirate of Venetian painters devoured not only Leonardo's ideas, but also those of Albrecht Dürer, the German artist whose realistic rendering of nature was known in Venice through prints, even before his sojourn there in 1506-7. Dürer's work taught Venetian artists that landscape could be an independent element of a painting, rather than just a symbolic backdrop for religious subjects.

The result was a new style full of natural movement, sensuality and poetic atmosphere. Venetian painting had long been characterised by its jewel-like colour—obtained by grinding coloured glass and minerals such as lapis lazuli into the pigments—but now it was applied in a way that gave art the kiss of life.

Giorgione blazed the trail. A top student of Bellini, he later forged his own style, inspired by the current vogue for pastoral love poetry based on recently discovered ancient texts, then the bestsellers of Venice's flourishing printing industry. He excelled at what was known among the educated elite as the *paragone*: a competition between painting and poetry in which painters sought to prove that they could rival poets in conveying beauty by appealing to the eyes, as well as to the mind. This was revolutionary because it implied that painting originated in the imagination of the artist, rather than being a simple recording of the great and the good, history and religion. It proved painters were creators and not just craftsmen.

His most enigmatic paintings, such as "The Tempest" and "The Three Philosophers", have no obvious subject. Instead they evoke a series of allegorical meanings that would have mystified all but his coterie of young, aristocratic patrons. Giorgione's work displays an unprecedented feeling for landscape as a poetic and erotic space, where mortals and muses play. Even in religious paintings, such as his famous "Adoration of the Shepherds", he emphasises the pastoral nature of the scene by placing the shepherds centre-stage and shifting the Christ Child to the side, something never before seen in art.

Giorgione gained an almost cult status after his tragically early death of the plague in 1510, aged 33. Hot on his heels came the ambitious Titian, who had graduated from Bellini's workshop around 1506 and become a student of Giorgione's. He finished Giorgione's "Sleeping Venus", now in Dresden, by painting the pastoral landscape in which the recumbent nude rests. But Titian realised that he needed to diversify his market and combine elite patronage with a broad studio practice like that of Bellini, whose altarpieces catered to wealthy Venetians keen to secure their salvation by donating art to churches.

The real prize for Titian, as for Michelangelo before him, was an aristocratic patron. So when Alfonso d'Este asked him to complete the *camerino*, the private exhibition hall in his palace in Ferrara, he jumped at the chance. Bellini had begun the job by painting "The Feast of the Gods" for the libertine duke, who wanted the best artists in Italy to paint canvases on themes of classical drunken revels. After Bellini's death in 1516, Titian painted three mythological scenes to complement his work, repainting the background of his teacher's painting so that it matched his own. The current exhibition, like the recent Titian show in London and Madrid, brings together paintings from this legendary, now destroyed, pleasure chamber.

Even the aged Bellini, patriarch of Venetian painting, was not too old to learn from the new energy around him. A sense of reverie had always pervaded his painting, but his late art, such as the altarpiece for the church of San Zaccaria (1505), possessed what Mr Brown calls a "restraint and refinement" unmatched by any of his pupils. In 1515, when he was 85, he painted a piece of silent poetry that many consider his masterpiece: "Lady with a Mirror" (a detail from which is shown above). This famous nude, at once erotic and chaste, is possibly a response to the work of his star pupils and their fashion for portraying female beauties and poetical landscapes.

"Lady with a Mirror" was called "an apotheosis of seeing" by the late art historian, Otto Pacht. The phrase could also describe Venetian art of the first decades of the 16th century. It was as though artists' eyes had been opened to the myriad possibilities of seeing and creating beauty.

The past five years have seen a flowering of scholarship on this period and the current catalogue builds on this. Anyone within travelling distance of Washington or Vienna should rush to see the new exhibition. But if you can't, don't despair. As the next best thing, the exhibition's scholarly catalogue opens minds and eyes to the poetry and passion of Venetian art, just as its creators would have wished.

Bellini, Giorgione, Titian, and the Renaissance of Venetian Painting.
By David Alan Brown.
Yale University Press; 336 pages; $65 and £40

"Bellini, Giorgione, Titian, and the Renaissance of Venetian Painting" is at the National Gallery of Art, Washington, DC, until September 17th and then at the Kunsthistorisches Museum, Vienna, from October 17th to January 7th 2007

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Robert Brooks and Mickey Spillane

Jul 27th 2006
From The Economist print edition

Robert Brooks and Mickey Spillane, suppliers of fantasies to American males, died on July 16th and July 17th, aged 69 and 88

ON DAYS like this, the weather sat over Manhattan like a lid on a boiler. But the cab was cool. Mike Hammer jumped in, directed the driver to Midtown, and watched the city slide by.

He had heard of Mickey Spillane's death on the TV news as he took a shower. Sad, and hard to believe. Only weeks ago he had seen him in some fishing village in South Carolina, still looking like a street brawler from Elizabeth, New Jersey. Hammer could hear his voice now, a snarl of contempt for the writers who thought his books were repulsive and illiterate. What the hell, they sold. He was maybe the most popular fiction writer ever. A literary type once complained to him that seven of his books were among the ten top sellers of all time. "Lucky I only wrote seven books," growled Mr Spillane.

Good answer.

As the taxi revved and accelerated, Mike Hammer fingered the gun under his jacket. But the streets were quiet.

He and Spillane went back a long way, ever since Spillane had starting banging out his adventures on the trusty Smith Corona. That was 1946, with "I, the Jury". Two dozen more had followed. The formula was no secret. Plenty of violence—guns, fistfights, gougings, torture, select amputations. Communist villains, just right for the 1950s. Oodles of sexual titillation, with luscious girls instinctively undressing as soon as Hammer appeared. So much sex and so much violence had never been seen before. Hammer was a private dick without hang-ups, as calm and laconically witty when staring down the barrel of a .45 as when urging a female DA to tie up her bathrobe. Every red-blooded American male could identify with him.

"Damn right," thought Mike Hammer.

Only an hour ago he had been tied to a chair, blood on his face, while some gonzo had forced a sodium pentothal injection into his resisting arm. Now he was on his way to meet a man who had information. He

was taking no chances. They were meeting at a joint called Hooters, on the fairly good side of town. "Delightfully Tacky, Yet Unrefined", the billboard said, He could deal with that. And if things got hot, there were no rules of engagement for private cops like him.

The place was alive with frat boys. Bleached wood lined the walls, with college pennants. The Christmas lights were on, though it was July. And everywhere strolled the most amazing girls, with cantilevered breasts beneath their T-shirts and orange hot-pants as tight as dammit. They wore cowboy hats, wide smiles and tans that evidently went all over.

He found a table and, to calm himself down, read the promotional literature. The whole Hooters idea, he learned, had been an adolescent fantasy in which six men in 1983 had tried to recreate in Clearwater, Florida, the dream restaurants of their youth. The money ran out, and Robert Brooks had rescued them. Without him, this Paradise would never have reached New York.

Wings with champagne

Mr Brooks had been a self-made man, raised on a hardscrabble tobacco farm in South Carolina. He had stacked up his fortune in the food business in Atlanta. After he took Hooters over, in the mid-1980s, the company boomed: 435 restaurants, soaring profits (of which Mr Brooks gave much to charity), a casino, a pro golf tour, a NASCAR racing series, an airline. Hell, thought Mike Hammer, he could have flown back to Newark on Hooters Air, with two beautiful Hooters girls attending to make sure his seatbelt was securely fastened. A crying shame it had stopped commercial flights after three years.

A man sat down at his table, cradling a beer. "Quite a place," he said.

"Damn right."

"You know Brooks was a Methodist? Didn't know what 'Hooters' meant?"

"You don't say."

"Used to bring ministers to his restaurants, to show them how wholesome it was. And how you could never go wrong with good food, cold beer and pretty girls."

Wholesomely, a waitress approached him. Her orange crotch was on a level with his chin, and her legs went on and on. "What'll you have?" she asked him.

"Anything you've got, honey."

The menu offered a Gourmet Chicken Wing Dinner: 20 wings and a bottle of Dom Perignon. Or an Oyster Roast: "Shuck at your own risk". He ordered the Chicken Wing Dinner with secret sauce.

"Breaded or naked?"

He liked this place.

When his beer came, in a cold, wet pitcher, he and his mystery companion drank a toast to Bob Brooks. All around them, happy jocks were doing the same. Mike Hammer smiled. Only yesterday he had kicked in a door at the top of a dark staircase, knocked an attacker to the floor, kicked him in the stomach, crunched his teeth one by one and then allowed a beautiful brunette, naked under an evening gown, to leave unmolested by the fire escape. Now he could almost forget that he was still on the job.

But he did not forget. As he left he slid into his newspaper a Hooters menu, damp but intact. Inside it, courtesy of his mystery companion, lay the recipe for the secret sauce. Adjusting his rod under his ice-cool armpit, he made for the door.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Overview

Jul 27th 2006
From The Economist print edition

Home sales in America fell by 1.3% in June, as inventories rose to their highest levels since 1997. Sales of condominiums were particularly slow. The median price for an existing home was $231,000 in June, a 0.9% increase from a year earlier. Although that was the smallest such increase since May 1995, American consumer confidence rose in July, according to the Conference Board.

Britain's GDP grew by 0.8% in the second quarter of 2006, compared with 0.7% in the first. The growth was mostly in services such as distribution, restaurants and financial services. Strong retail sales continued into the summer. Sales volumes were 2.1% higher between April and June than they had been in the previous three months.

Business sentiment in Germany dimmed a little in July, according to the widely watched Ifo index. But its reading of 105.6, down from 106.8 in June, remains strong by historical standards. In France and Italy meanwhile, business confidence diverged. French sentiment improved more than expected in July, according to the French statistics office, INSEE. Businessmen were enthusiastic about the strength of exports. In Italy, however, confidence declined after 13 monthly rises, according to the ISAE research institute.

Nevertheless, the euro-area economy as a whole remains quite healthy, according to the EuroCOIN indicator, a measure of economic activity compiled by the CEPR. Its reading of 0.633 for June, up from 0.617 in May, suggests the economy is growing faster than its long-run trend rate, which it calculates at about 0.5% a quarter.

Australia's consumer prices rose by 1.6% in the second quarter, exceeding forecasts and lifting the annual inflation rate to 4%. The jump in prices makes it likely that the Reserve Bank of Australia will raise interest rates so as to bring inflation back towards its preferred range of 2-3%. The Australian dollar strengthened in anticipation of the possible rate increase.

Annual inflation in Canada slowed to 2.5% in June, with core inflation falling to 1.7%. The Canadian dollar fell on the assumption that the Bank of Canada need not tighten monetary policy much further.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Output, demand and jobs

Jul 27th 2006
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	latest	qtr*	2006	2007	latest	latest	latest	year ago
Australia	+ 3.1 Q1	+ 3.5	+ 3.2	+ 3.4	– 1.0 Q1	+ 2.7 Q1	4.9 Jun	5.0
Austria	+ 3.0 Q1	+ 2.4	+ 2.2	+ 1.9	+ 8.4 Apr	+ 1.1 Apr	4.8 Jun	5.2
Belgium	+ 2.8 Q2	+ 3.2	+ 2.4	+ 1.9	+ 7.6 May	+ 0.8 Apr	12.0 May†	12.2
Britain	+ 2.6 Q2	+ 3.4	+ 2.4	+ 2.5	– 0.7 May	+ 3.6 Jun	5.4 May‡	4.7
Canada	+ 3.2 Q1	+ 3.8	+ 3.2	+ 2.7	+ 3.1 Apr	+ 5.7 Apr	6.1 Jun	6.8
Denmark	+ 3.5 Q1	+ 0.8	+ 2.7	+ 2.2	+ 6.1 May	+ 5.3 May	4.5 Jun	5.8
France	+ 1.5 Q1	+ 2.2	+ 2.1	+ 1.9	+ 2.7 May	+ 1.4 May	9.1 May	10.1
Germany	+ 1.4 Q1	+ 1.6	+ 1.8	+ 1.2	+ 6.0 May	+ 3.2 May	10.9 Jun§	11.9
Italy	+ 1.5 Q1	+ 2.4	+ 1.3	+ 1.1	+ 2.9 May	+ 1.5 Apr	7.4 Q1	7.8
Japan	+ 3.8 Q1	+ 3.1	+ 3.0	+ 2.4	+ 3.9 May	– 0.3 May	4.0 May	4.4
Netherlands	+ 2.9 Q1	+ 0.7	+ 2.3	+ 2.1	+ 1.8 May	+ 8.0 Apr	5.5 Jun††	6.7
Spain	+ 3.5 Q1	+ 3.3	+ 3.3	+ 2.8	+ 7.9 May	+ 1.3 May	8.3 May	9.3
Sweden	+ 4.1 Q1	+ 4.6	+ 3.7	+ 2.8	+ 6.3 May	+11.8 May	6.3 Jun†	7.1
Switzerland	+ 3.5 Q1	+ 3.8	+ 2.9	+ 1.9	+ 9.2 Q1	+ 5.9 May	3.1 Jun†	3.6
United States	+ 3.7 Q1	+ 5.6	+ 3.4	+ 2.7	+ 4.5 Jun	+ 4.7 May	4.6 Jun	5.0
Euro area	+ 1.9 Q1	+ 2.4	+ 2.2	+ 1.8	+ 4.9 May	+ 0.8 May	7.9 May	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.8 Q1	+ 1.6	na	na	+15.4 May	+ 5.3 May	7.7 Jun	8.2
Greece	+ 4.1 Q1	na	na	na	+ 0.6 May	+ 9.8 Apr	9.7 Q1	10.4
Iceland	+ 5.0 Q1	na	na	na	na	na	1.3 May†	2.2
Ireland	+ 5.8 Q1	+ 4.4	na	na	+ 6.9 May	+ 4.4 May	4.5 Jun	4.3
Luxembourg	+ 7.3 Q1	na	na	na	+12.5 Apr	+ 4.6 May	4.1 May	4.0
New Zealand	+ 2.1 Q1	+ 2.3	na	na	– 0.7 Q1	+ 3.0 Q1	3.9 Q1	3.9
Norway	+ 5.4 Q1	+ 2.3	na	na	– 5.2 May	+ 6.3 May	3.7 May**	4.7
Portugal	+ 1.0 Q1	+ 1.8	na	na	+ 6.8 May	+ 2.4 May	7.7 Q1†	7.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Mar-May; claimant count rate 3.0% in Jun.
§EU harmonised rate 8.3% in May. ††Apr-Jun. **Mar-May.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Prices and wages

Jul 27th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 4.0	Q2	+ 2.5	+ 2.9	+ 2.7	+ 9.9	Q2	+ 6.9	+ 4.0	Q1	+ 4.5
Austria	+ 1.5	Jun	+ 2.3	+ 2.0	+ 1.9	+ 3.9	Jun	+ 0.7	+ 2.8	Jun	+ 2.2
Belgium	+ 1.9	Jun	+ 2.9	+ 2.1	+ 1.9	+ 5.6	May	+ 2.4	+ 2.3	Apr	+ 2.6
Britain	+ 2.5	Jun*	+ 2.0	+ 2.0	+ 1.9	+ 3.3	Jun	+ 2.5	+ 4.1	May†	+ 4.1
Canada	+ 2.5	Jun	+ 1.7	+ 2.3	+ 2.1	+ 2.5	May	− 0.3	+ 0.2	Apr	+ 2.6
Denmark	+ 2.2	Jun	+ 1.8	+ 2.0	+ 2.0	+ 4.6	Jun	+ 3.9	+ 2.9	Q1	+ 3.1
France	+ 1.9	Jun	+ 1.7	+ 1.9	+ 1.6	+ 4.1	May	+ 2.5	+ 3.3	Q1	+ 2.9
Germany	+ 1.9	Jul	+ 2.0	+ 1.8	+ 2.3	+ 5.3	Jun	+ 2.2	+ 1.1	May	+ 0.6
Italy	+ 2.3	Jun	+ 1.8	+ 2.1	+ 1.9	+ 6.6	May	+ 3.2	+ 2.9	Jun	+ 3.0
Japan	+ 0.6	May	+ 0.2	+ 0.5	+ 0.6	+ 3.3	Jun	+ 1.4	+ 0.6	May	+ 0.1
Netherlands	+ 1.3	Jun	+ 1.6	+ 1.5	+ 1.5	+ 6.0	May	+ 3.8	+ 1.9	Jun	+ 0.6
Spain	+ 3.9	Jun	+ 3.2	+ 3.6	+ 2.9	+ 6.3	Jun	+ 4.4	+ 3.0	Q1	+ 2.5
Sweden	+ 1.5	Jun	+ 0.6	+ 1.4	+ 1.8	+ 4.4	Jun	+ 3.2	+ 3.6	Apr	+ 2.3
Switzerland	+ 1.6	Jun	+ 0.7	+ 1.3	+ 1.2	+ 3.1	Jun	+ 0.5	+ 1.0	2005	+ 0.9
United States	+ 4.3	Jun	+ 2.5	+ 3.5	+ 2.4	+ 4.9	Jun	+ 3.7	+ 3.9	Jun	+ 2.7
Euro area	+ 2.5	Jun	+ 2.1	+ 2.2	+ 2.1	+ 6.0	May	+ 3.5	+ 2.2	Q1	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.7	Jun	+ 1.1	na	na	+ 5.6	Jun	+ 4.0	+ 3.4	Q1	+ 4.0
Greece	+ 3.2	Jun	+ 3.3	na	na	+ 8.4	May	+ 3.0	na		na
Iceland	+ 8.4	Jul	+ 3.5	na	na	+11.8	Jul	+ 3.7	+ 8.8	Jun	+ 6.3
Ireland	+ 3.9	Jun	+ 2.1	na	na	− 0.4	Jun	− 0.3	+ 2.2	Q1	+ 6.4
Luxembourg	+ 3.2	Jun	+ 2.2	na	na	+ 7.4	May	+ 7.9	+ 2.2	Apr	+ 1.0
New Zealand	+ 4.0	Q2	+ 2.8	na	na	+ 7.2	Q1	+ 4.2	+ 3.3	Q1	+ 2.5
Norway	+ 2.1	Jun	+ 1.7	na	na	+13.2	Jun	+19.3	+ 3.6	Q1	+ 4.2
Portugal	+ 2.9	Jun	+ 1.6	na	na	+ 6.0	Jun	+ 3.5	+ 1.5	May	− 3.3

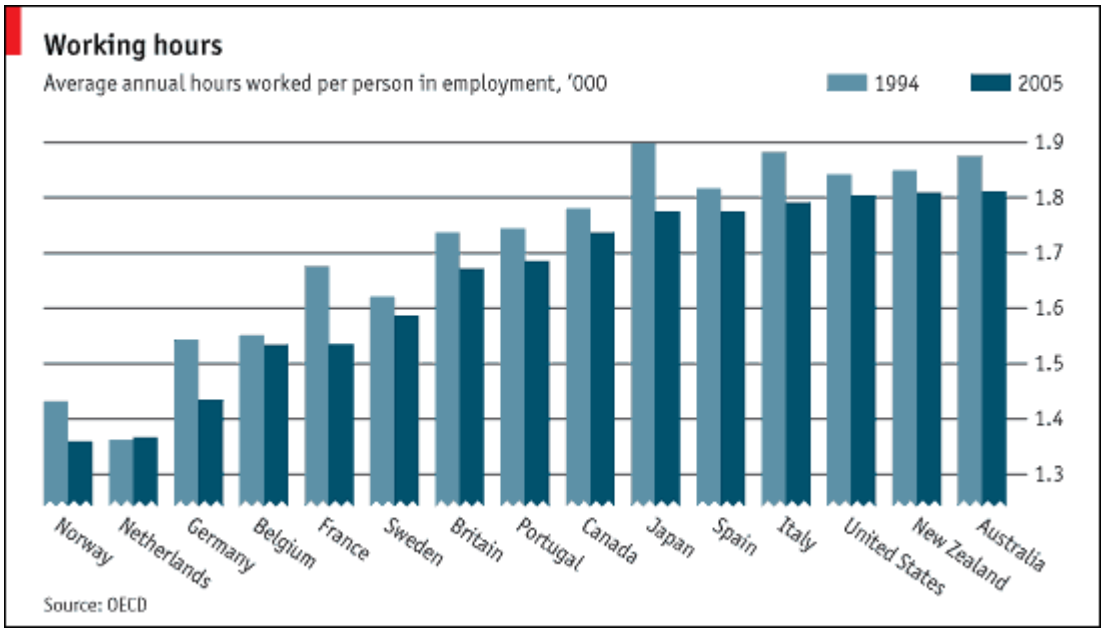
*RPI inflation rate 3.3% in Jun. †Mar-May.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Working hours

Jul 27th 2006
From The Economist print edition

In most rich countries the average worker spends much less time at work now than in the early 1990s. In Japan the number of hours has dropped by 6.5% since 1994. The decline is slowing in Germany, where hours even increased a little from 2003 to 2004. The OECD cautions against comparing how hard different countries work, because one nation's figures are not comparable with another's.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Money and interest rates

Jul 27th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jul 26th 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 9.0	+ 9.8	May	6.11	5.65	6.01	5.90	5.17	7.03
Britain	+ 5.7‡	+13.7	Jun	4.70	4.56	4.75	4.64	4.29	5.71‡
Canada	+11.9	+ 6.5	May	4.16	2.57	4.15	4.40	3.97	5.64
Denmark	+13.2	+10.0	Jun	3.21	2.20	3.65	3.98	3.17	5.25
Japan	+ 4.0	+ 1.2	Jun	0.34	0.02	0.80	1.87	1.29	2.04
Sweden	+ 0.6	+11.5	May	2.25	1.45	3.20	3.85	2.99	3.88
Switzerland	- 0.9	+ 1.4	Jun	1.54	0.75	1.94	2.70	1.93	2.72
United States	- 0.1	+ 4.8	Jun§	5.45	3.49	5.06	5.03	4.26	6.02
Euro area†	+10.2	+ 8.9	May	3.14	2.13	3.55	3.94	3.19	4.56

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. §New series for broad money supply. Benchmarks: US 30-year 5.10%, Japan No. 281 1.86%. Central bank rates: US fed funds 5.25%, ECB refinancing 2.75%, BOJ overnight call 0.25%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Economist commodity price index

Jul 27th 2006
From The Economist print edition

2000=100

	Jul 18th	Jul 25th*	% change on one month	% change on one year
Dollar index				
All items	177.4	173.5	+ 2.7	+ 28.8
Food	138.2	136.8	+ 0.9	+ 6.3
Industrials				
All	228.0	221.0	+ 4.3	+ 55.0
Nfa†	156.1	154.4	– 4.5	+ 14.2
Metals	267.3	257.3	+ 7.5	+ 75.5
Sterling index				
All items	147.3	142.4	+ 1.4	+ 21.4
Euro index				
All items	131.3	127.1	+ 2.5	+ 22.6
Yen index				
All items	193.1	188.2	+ 3.3	+ 34.1
Gold				
$ per oz	646.55	610.95	+ 3.0	+ 44.0
West Texas Intermediate				
$ per barrel	73.80	73.75	+ 2.4	+ 24.8

*Provisional. †Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Stockmarkets

Jul 27th 2006
From The Economist print edition

Market indices

	Jul 26th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	4,907.6	5,318.2	4,708.8	+ 0.5	- 7.7	+ 4.2	+ 7.9
Austria (ATX)	3,698.0	4,344.4	3,324.1	+ 2.1	- 14.9	+ 0.8	+ 7.9
Belgium (Bel 20)	3,722.7	3,987.3	3,445.1	+ 1.7	- 6.6	+ 4.9	+12.2
Britain (FTSE 100)	5,877.1	6,132.7	5,506.8	+ 1.7	- 15.2	+ 4.6	+12.5
Canada (Toronto Composite)	11,879.6	12,487.3	10,904.3	+ 2.2	- 4.9	+ 5.4	+ 8.0
Denmark (OMXCB)	347.6	395.5	325.0	+ 2.2	- 12.1	- 5.5	+ 1.0
France (SBF 250)	3,477.8	3,755.6	3,244.2	+ 2.1	- 20.8	+ 5.4	+12.7
France (CAC 40)	4,943.0	5,312.2	4,615.4	+ 2.0	- 28.6	+ 4.8	+12.1
Germany (DAX)*	5,583.1	6,140.7	5,292.1	+ 0.8	- 30.8	+ 3.2	+10.4
Italy (S&P/MIB)	36,206.0	38,765.0	34,850.0	+ 0.6	- 27.7	+ 1.4	+ 8.5
Japan (Nikkei 225)	14,884.1	17,563.4	14,218.6	+ 2.6	- 61.8	- 7.6	- 6.7
Japan (Topix)	1,520.4	1,783.7	1,458.3	+ 3.1	- 47.3	- 7.8	- 6.9
Netherlands (AEX)	446.4	478.0	412.9	+ 2.0	- 36.4	+ 2.2	+ 9.3
Spain (Madrid SE)	1,262.6	1,318.5	1,156.8	+ 1.8	- 4.2	+ 9.2	+16.8
Sweden (Affarsvarlden Gen)	294.1	333.7	275.2	+ 1.5	- 26.5	+ 0.2	+ 8.7
Switzerland (Swiss Market)	7,815.1	8,122.1	7,154.9	+ 2.8	- 7.1	+ 3.0	+ 8.7
United States (DJIA)	11,102.5	11,642.7	10,667.4	+ 0.8	- 5.3	+ 3.6	+ 3.6
United States (S&P 500)	1,268.4	1,325.8	1,223.7	+ 0.7	- 17.0	+ 1.6	+ 1.6
United States (NASDAQ Comp)	2,070.5	2,370.9	2,020.4	- 0.5	- 59.0	- 6.1	- 6.1
Europe (FTSEurofirst 300)†	1,320.8	1,405.6	1,238.7	+ 1.7	- 22.5	+ 3.5	+10.7
Euro area (FTSE Euro 100)†	1,116.7	1,198.7	1,050.0	+ 1.5	- 28.0	+ 2.5	+ 9.7
World (MSCI)‡	1,304.0	1,406.3	1,243.9	+ 1.5	- 10.0	+ 3.7	+ 3.7
World bond market (Citigroup)††	633.6	648.4	612.1	+ 0.3	- 5.0	+ 2.1	+ 2.1

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Trade, exchange rates and budgets

Jul 27th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		Current-account balance The Economist poll % of GDP, forecast 2006	Current-account balance The Economist poll % of GDP, forecast 2007	Exchange rate trade-weighted† 2000=100 Jul 26th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Jul 26th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2006‡
Australia	– 12.7	May	– 40.6	Q1	– 5.6	– 5.2	118.9	118.1	1.32	1.32	2.43	1.66	1.13	+ 0.9
Austria	– 1.2	Apr	+ 0.5	Dec	+ 0.3	– 0.1	105.6§	105.4	0.79	0.83	1.46	–	0.68	– 1.9
Belgium	+ 13.1	May	+ 7.3	Mar	+ 1.5	+ 1.6	107.4§	107.2	0.79	0.83	1.46	–	0.68	– 0.4
Britain	–128.1	May	– 52.3	Q1	– 2.9	– 2.9	100.4	97.6	0.54	0.57	–	0.68	0.46	– 3.4
Canada	+ 59.9	May	+ 31.8	Q1	+ 2.1	+ 1.1	126.7	117.1	1.14	1.24	2.11	1.44	0.98	+ 2.2
Denmark	+ 8.5	May	+ 5.1	May	+ 2.3	+ 2.2	106.4	106.0	5.91	6.20	10.9	7.46	5.06	+ 3.3
France	– 31.7	May	– 33.4	May	– 1.8	– 1.5	108.3§	108.0	0.79	0.83	1.46	–	0.68	– 2.9
Germany	+189.9	May	+108.1	May	+ 3.7	+ 3.8	109.9§	109.5	0.79	0.83	1.46	–	0.68	– 3.1
Italy	– 19.9	May	– 30.3	May	– 1.6	– 1.5	107.9§	107.6	0.79	0.83	1.46	–	0.68	– 4.2
Japan	+ 80.6	May	+165.8	May	+ 3.8	+ 3.8	80.6	85.7	117	112	216	147	–	– 5.2
Netherlands	+ 38.6	May	+ 42.3	Q1	+ 5.9	+ 5.8	108.3§	108.0	0.79	0.83	1.46	–	0.68	– 0.5
Spain	–101.4	May	– 91.2	Apr	– 7.7	– 7.7	105.8§	105.6	0.79	0.83	1.46	–	0.68	+ 1.1
Sweden	+ 19.6	Jun	+ 23.2	Q1	+ 6.6	+ 6.1	97.8	95.1	7.34	7.84	13.6	9.26	6.28	+ 1.7
Switzerland	+ 7.2	Jun	+ 51.7	Q1	+13.4	+12.5	105.7	105.7	1.25	1.30	2.31	1.58	1.07	– 0.2
United States	–822.8	May	–808.5	Q1	– 6.8	– 6.9	84.4	87.0	–	–	1.85	1.26	0.86	– 3.6
Euro area	– 5.1	May	– 56.9	May	– 0.4	– 0.3	118.5	116.1	0.79	0.83	1.46	–	0.68	– 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 7.1	May	+ 10.1	May	na	na	109.0§	108.8	0.79	0.83	1.46	–	0.68	+ 2.2
Greece	– 36.8	Apr	– 23.3	May	na	na	104.8§	104.6	0.79	0.83	1.46	–	0.68	– 3.0
Iceland	– 1.8	May	– 3.1	Q1	na	na	94.0**	104.5	72.8	64.8	134	91.8	62.3	+ 2.0
Ireland	+ 38.0	May	– 5.6	Q1	na	na	113.7§	113.3	0.79	0.83	1.46	–	0.68	– 0.3
Luxembourg	– 5.1	Apr	+ 3.9	Q1	na	na	107.4§	107.2	0.79	0.83	1.46	–	0.68	– 1.7
New Zealand	– 4.6	Jun	– 10.1	Q1	na	na	122.9	134.5	1.60	1.47	2.96	2.02	1.37	+ 4.6
Norway	+ 57.6	Jun	+ 50.2	Q1	na	na	110.8	110.6	6.29	6.58	11.6	7.94	5.38	+ 18.5
Portugal	– 23.9	Apr	– 16.8	May	na	na	105.6**	106.4	0.79	0.83	1.46	–	0.68	– 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, March average.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Commercial property prices

Jul 27th 2006
From The Economist print edition

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Overview

Jul 27th 2006
From The Economist print edition

Several central banks turned hawkish this week. The Reserve Bank of India raised its key interest rate by a quarter of a percentage point to 6%, because of higher energy prices. Hungary's central bank tightened by half a percentage point to 6.75%, following a quarter-point rise in June.

Strong investment helped South Korea's GDP grow by 5.3% in the year to the second quarter.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

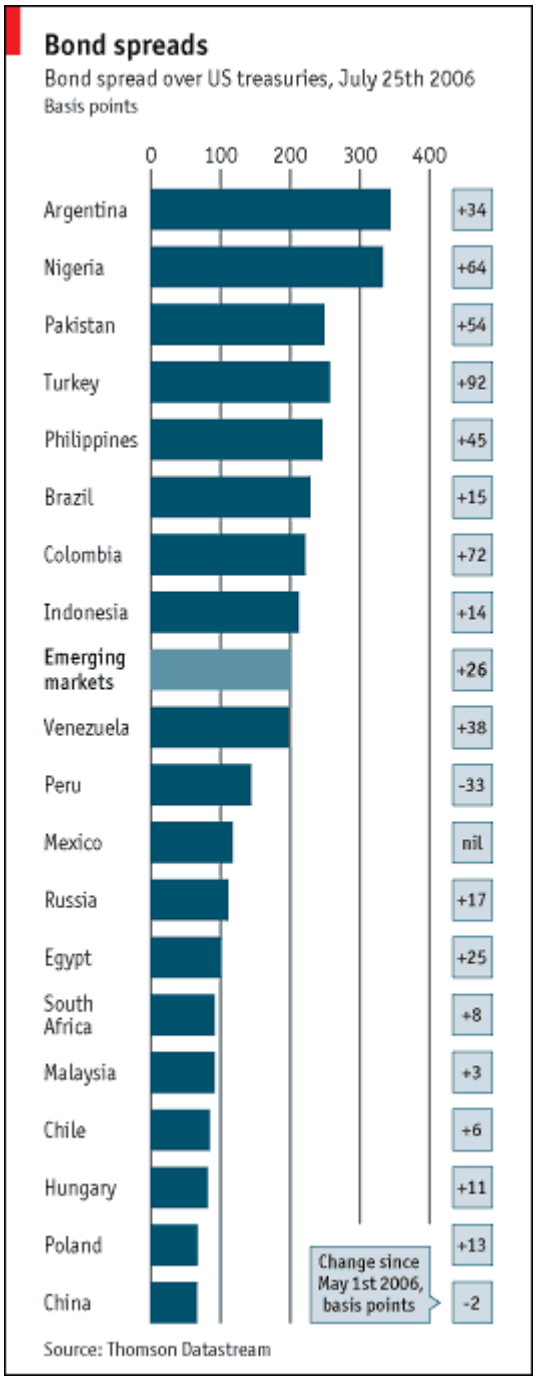
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bond spreads

Jul 27th 2006
From The Economist print edition

Bonds issued by the governments of emerging economies are riskier than those of their American counterparts. As a result, they must offer a higher yield. In many emerging economies this spread fell to historic lows earlier this year, but it has risen since May. That said, emerging bond markets have fared much better than stockmarkets, which lost a quarter of their value from May 8th to June 13th.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Jul 27th 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.3	Q2	+19.5	Jun	+ 1.5	Jun	+123.0	Jun	+ 160.8	2005	925.0	May
Hong Kong	+ 8.2	Q1	+ 7.0	Q1	+ 2.2	Jun	−14.0	Jun	+20.7	Q1	126.6	Jun
India	+ 9.3	Q1	+10.0	May	+ 6.3	May	−51.2	Jun	−10.6	Q1	156.0	Jun
Indonesia	+ 4.6	Q1	− 3.6	Apr	+15.5	Jun	+32.7	May	+ 3.0	Q4	42.3	May
Malaysia	+ 5.3	Q1	+ 5.5	May	+ 3.9	Jun	+26.9	May	+19.5	Q1	79.0	May
Pakistan	+ 6.6	2006†	+19.3	Sep	+ 7.7	Jun	−11.2	May	− 4.8	Q1	11.4	May
Philippines	+ 5.5	Q1	−13.9	Apr	+ 6.7	Jun	− 3.9	May	+ 2.9	Mar	18.2	Jun
Singapore	+ 7.5	Q2	+22.5	Jun	+ 1.4	Jun	+33.4	Jun	+36.1	Q1	128.7	Jun
South Korea	+ 5.3	Q2	+11.6	May	+ 2.6	Jun	+18.2	Jun	+ 7.8	Jun	224.3	Jun
Taiwan	+ 4.9	Q1	+ 5.5	Jun	+ 1.7	Jun	+10.7	Jun	+18.1	Q1	260.4	Jun
Thailand	+ 6.0	Q1	+ 8.9	May	+ 5.9	Jun	− 3.7	May	+ 1.2	May	56.0	May
Argentina	+ 8.6	Q1	+ 8.9	Jun	+11.0	Jun	+11.8	Jun	+ 6.7	Q1	23.0	May
Brazil	+ 3.4	Q1	+ 4.8	May	+ 4.0	Jun	+44.7	Jun	+12.1	Jun	63.4	May
Chile	+ 5.1	Q1	+ 6.9	May	+ 3.9	Jun	+15.0	Jun	+ 0.8	Q1	17.6	Jun
Colombia	+ 5.2	Q1	+12.0	May	+ 3.9	Jun	+ 1.1	Apr	− 2.0	Q1	14.3	Jun
Mexico	+ 5.5	Q1	+ 5.7	May	+ 3.2	Jun	− 4.2	Jun	− 1.2	Q1	81.4	May
Peru	+ 6.5	May	+ 2.7	May	+ 1.8	Jun	+ 6.0	May	+ 0.7	Q1	13.3	May
Venezuela	+ 9.4	Q1	+21.0	Mar	+11.8	Jun	+34.8	Q1	+28.1	Q1	22.3	May
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 6.4	Jun	−11.2	Q1	+ 2.1	Q1	21.8	Jun
Israel	+ 5.2	Q1	+10.4	May	+ 3.5	Jun	− 8.0	Jun	+ 4.4	Q1	27.5	Jun
Saudi Arabia	+ 6.5	2005‡	na		+ 2.4	Apr	+134.3	2005	+90.7	2005	27.2	May
South Africa	+ 4.0	Q1	+ 5.1	May	+ 4.9	Jun	− 6.1	May	−11.7	Q1	21.5	Jun
Czech Republic	+ 7.4	Q1	+12.2	May	+ 2.8	Jun	+ 1.5	May	− 3.4	Q1	30.4	Jun
Hungary	+ 4.6	Q1	+ 7.4	May	+ 2.8	Jun	− 3.1	May	− 7.9	Q1	21.1	Jun
Poland	+ 5.2	Q1	+12.4	Jun	+ 0.8	Jun	− 2.6	May	− 4.2	May	44.9	Jun
Russia	+ 5.5	Q1	+ 2.9	Jun	+ 9.1	Jun	+136.0	May	+93.5	Q1	243.2	Jun
Turkey	+ 6.4	Q1	+ 9.0	May	+10.1	Jun	−49.1	May	−28.7	May	59.6	May
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.6	Q1	+11.3	May	+ 4.3	Jun	− 2.7	Apr	− 1.8	May	2.1	May
Latvia	+13.5	Q1	+ 2.3	May	+ 6.3	Jun	− 3.5	May	− 2.3	May	3.1	May
Lithuania	+ 8.1	Q1	na		+ 3.7	Jun	− 3.9	May	− 2.1	May	4.2	May
Slovakia	+ 6.3	Q1	+11.4	May	+ 4.6	Jun	− 2.9	May	− 4.7	Mar	16.6	May
Slovenia	+ 5.1	Q1	+ 9.8	May	+ 2.9	Jun	− 1.7	May	− 0.3	May	8.4	Apr

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Financial markets

Jul 27th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 26th		Dec 30th 2005	
	Jul 26th	year ago	Jul 26th	% a year		one week	in local currency	in $ terms
China	7.98	8.11	14.7	2.73	1,773.1	+2.5	+ 45.2	+ 46.8
Hong Kong	7.78	7.78	14.4	4.39	16,617.2	+3.2	+ 11.7	+ 11.4
India	46.8	43.5	86.4	6.42	10,617.3	+6.1	+ 13.0	+ 8.7
Indonesia	9,120	9,840	16,846	12.72	1,312.8	+2.5	+ 12.9	+ 21.8
Malaysia	3.68	3.75	6.80	3.93	934.3	+2.5	+ 3.8	+ 6.6
Pakistan	60.3	59.6	111	10.33	10,343.1	+1.4	+ 8.2	+ 7.3
Philippines	51.8	56.1	95.6	7.56	2,289.1	+4.9	+ 9.2	+ 11.9
Singapore	1.58	1.67	2.92	3.56	2,406.3	+2.8	+ 2.5	+ 7.7
South Korea	955	1,031	1,763	4.63	1,279.1	+3.7	- 7.3	- 1.8
Taiwan	32.8	32.0	60.7	1.79	6,376.4	+1.6	- 2.6	- 2.6
Thailand	38.0	41.7	70.1	5.40	690.9	+4.7	- 3.2	+ 4.5
Argentina	3.08	2.86	5.68	10.13	1,686.4	+1.4	+ 9.3	+ 7.5
Brazil	2.21	2.45	4.08	14.66	36,594.0	-0.5	+ 9.4	+ 15.6
Chile	543	564	1,002	5.04	9,846.0	+0.6	+ 7.0	+ 0.9
Colombia	2,467	2,314	4,557	6.35	8,620.1	+3.3	- 9.4	- 16.0
Mexico	10.9	10.6	20.2	7.02	19,913.2	+0.2	+ 11.9	+ 8.9
Peru	3.24	3.25	5.98	4.55	8,807.5	+2.2	+ 83.4	+ 94.2
Venezuela	2,628§	2,510§	4,854	10.16	34,382.8	+5.0	+ 68.6	+ 65.9
Egypt	5.75	5.78	10.61	8.86	47,388.9	+7.5	- 14.4	- 14.5
Israel	4.43	4.55	8.19	5.65	791.7	-0.4	- 4.4	- 0.7
Saudi Arabia	3.75	3.75	6.93	5.25	10,393.3	-0.9	- 37.8	- 37.8
South Africa	6.99	6.65	12.9	7.80	20,517.9	-1.3	+ 13.4	+ 2.9
Czech Republic	22.5	25.1	41.6	2.31	1,343.8	nil	- 8.8	- 0.2
Hungary	216	204	399	6.95	21,740.5	+3.8	+ 4.6	+ 3.7
Poland	3.10	3.41	5.73	4.18	44,406.6	+5.0	+ 24.7	+ 31.0
Russia	26.9	28.7	49.8	11.50	1,511.5‡	+2.0	+ 25.9	+ 34.3
Turkey	1.52	1.34	2.81	20.77	35,984.5	+7.2	- 9.5	- 19.7
EM (MSCI)*	1.00	1.00	1.85	na	740.5	+4.1	+ 4.8	+ 4.8
EMBI+†	1.00	1.00	1.85	na	377.7	+1.1	+ 2.5	+ 2.5

* Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.